



State of Delaware  
Office of the Governor

Ruth Ann Minner  
Governor

November 27, 2003

To the People of Delaware  
and the Honorable Members of the  
142nd General Assembly

I am pleased to submit the State of Delaware's Comprehensive Annual Financial Report for fiscal year 2003. In addition to providing sound information for policymakers and legislators, this all-inclusive financial report is designed to encourage taxpayers to understand their state government's financial activities.

Included herein are the State's Basic Financial Statements, prepared in conformity with Generally Accepted Accounting Principles (GAAP) and audited by KPMG LLP.

Despite a sustained national economic slowdown, Delaware's economic and fiscal conditions remain sound as the enclosed report demonstrates. Our long history of prudent financial management and sound fiscal controls, coupled with the decisions we make to sustain our economy and investments to protect our unique quality of life, have allowed the State to weather the current economic challenges. These efforts helped Delaware become one of only seven states to hold the nation's highest bond ratings – Aaa from Moody's Investment Service, AAA from Fitch Ratings and AAA from Standard & Poor's –signifying its place among the most creditworthy states in the nation.

I am proud to report that we have effectively managed the economic and fiscal challenges that have confronted us through the end of fiscal year 2003, and will continue to do so in fiscal 2004 and beyond. As we face these challenges, I am confident that Delaware will continue its long tradition of prudent financial management.

Sincerely,

A handwritten signature in black ink, appearing to read "Ruth Ann Minner".  
Ruth Ann Minner  
Governor

Tatnall Building, Dover, Delaware 19901 (302) 744-4101 (302) 739-2775 fax  
Carvel State Office Building, Wilmington, Delaware 19801 (302) 577-3210 (302) 577-3118 fax

# State of Delaware

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STATE OF DELAWARE  
DEPARTMENT OF FINANCE  
OFFICE OF THE SECRETARY

CARVEL STATE BUILDING  
WILMINGTON, DELAWARE 19801  
TELEPHONE: (302) 577 - 8979  
FAX: (302) 577 - 8982

THOMAS COLLINS BUILDING  
DOVER, DELAWARE 19901  
TELEPHONE: (302) 744-1100  
FAX: (302) 744-1109

November 27, 2003

Governor Ruth Ann Minner  
Honorable Members of the 143rd General Assembly  
and the Citizens of Delaware

It is my pleasure to present the 2003 Comprehensive Annual Financial Report (CAFR) for the State of Delaware. The report for the fiscal year ended June 30, 2003 has been prepared in accordance with generally accepted accounting principles (GAAP) applicable to state and local governments, as promulgated by the Governmental Accounting Standards Board (GASB). The State also voluntarily follows the recommendations of the Government Finance Officers Association of the United States and Canada (GFOA) for the contents of government financial reports, and participates in the GFOA's review program for the Certificate of Achievement for Excellence in Financial Reporting.

Responsibility for the accuracy of data, as well as the completeness and fairness of its presentation – including all disclosures – rests with the Department of Finance. To the best of our knowledge and belief, the enclosed data is accurate in all material respects and is reported in a manner that presents fairly the State's financial position and the results of operations of the primary government and component units for which the State is financially accountable. All disclosures necessary to enable the reader to gain an understanding of the State's financial activities are included.

The CAFR has been prepared in accordance with GASB Statement Number 34, Basic Financial Statements - and Management's Discussion and Analysis - for State and Local Governments and related Statements Number 37 and 38. The objective of this reporting model is to provide a clear picture of the government as a single, unified entity as well as providing traditional fund based financial statements. The State implemented these new standards in the CAFR for June 30, 2002 and this report reflects the second year of implementation.

The CAFR is presented in three sections, as outlined below.

- The Introductory Section is comprised of this transmittal letter, a list of key State officials, the State's organizational chart and the Certificate of Achievement for Excellence in Financial Reporting for the June 30, 2002 CAFR.
- The Financial Section contains the independent auditors' report on the Basic Financial Statements, Management's Discussion and Analysis (MD&A), Basic Financial Statements (Government-Wide Financial Statements, Fund Financial Statements and notes) and other Required Supplementary Information.
- The Statistical Section includes selected financial, economic and demographic information, presented on a multi-year basis.

GASB Statement Number 34 requires that management provide a narrative introduction, overview and analysis to accompany the Basic Financial Statements in the form of the MD&A. This letter of transmittal is intended to complement the MD&A and should be read in conjunction with it. The MD&A can be found immediately following the Independent Auditors' Report.

## **PROFILE OF THE GOVERNMENT**

The State of Delaware reporting entity reflected in the CAFR, which is described more fully in Note 1 to the basic financial statements, conforms with the requirements of GASB Statement Number 14, The Financial Reporting Entity. The accounting and reporting principles contained in Statement Number 14 are based primarily on the fundamental concept that elected officials are accountable to their constituents. Further, Statement Number 14 provides that the financial statements should emphasize the primary government and permit financial statement users to distinguish between the primary government and its component units. Consequently, the transmittal letter, MD&A, and the financial statements focus on the primary government and its activities. Although information pertaining to the discretely presented component units is provided, their separately issued financial statements should be read to obtain a complete overview of their financial position.

The State budgets and controls its financial activities on the cash basis of accounting during its fiscal year. In compliance with State law, the State records its financial transactions in either of two major categories – the budgetary General Fund or budgetary Special Funds. References to these funds in this document include the terms "budgetary" or "budgetary basis" to differentiate them from the GAAP funds of the same name which encompass different funding categories. Because GAAP fund definitions for accounting purposes differ from those of the budgetary basis General and Special Funds, these differences are fully explained in Note 1 to the basic financial statements.

The budgetary General Fund provides for the cost of the State's general operations and is credited with all tax and other revenue of the State not dedicated to budgetary Special Funds. All disbursements from the budgetary General Fund must be authorized by appropriations of the General Assembly.

Budgetary Special Funds are designated for specific purposes. The appropriate budgetary Special Fund is credited with tax or other revenue allocated to such fund and is charged with the related disbursements. Examples of specific uses of budgetary Special Funds include State park operations and fees charged by the Public Service Commission and the Division of Professional Regulation. Federal payments, unemployment compensation and local school funds are examples of non-appropriated Special Funds. Some Special Funds, such as the Delaware State Housing Authority and the State Pension Office, contain both appropriated funds for operations and non-appropriated funds for specific programs, such as public housing and pension benefits.

### **Budgetary Control and Financial Management Systems**

Disbursements are controlled by an encumbrance accounting system that is designed to provide information on the actual extent of the State's obligations (as determined by purchase orders issued) and to guard against over-committing available funds. Appropriations are reduced immediately when purchase orders are issued for goods and services. The total amount of budgetary General Fund cash disbursements plus unliquidated encumbrances cannot exceed the amount appropriated by the General Assembly for any budget line.

Although the majority of the State's financial transactions are processed through the State's primary accounting system, certain Special Funds have financial activity outside that system. For example, the Transportation Trust Fund, the Delaware State Housing Authority and Delaware State University all maintain outside financial activity. This activity is governed in strict adherence to legislative regulations as well as guidelines established by their Boards. In addition, these entities are audited annually and produce published financial reports.

### **Budget Process**

As noted earlier, all disbursements from the budgetary General Fund and certain Special Funds must be authorized by appropriation of the General Assembly. In the fall of each calendar year, State agencies submit requests for operating and capital funds for the following fiscal year to the Budget Office. Public hearings on the requests are subsequently conducted. The Governor's proposed operating and capital budgets for the General Fund and Special Funds, including the Transportation Trust Fund, are then drafted and presented by the Governor to the General Assembly in January. The General Assembly's Joint Finance and Bond Bill Committees hold hearings and mark up the Governor's proposed operating and capital budgets, respectively. As amended, the budgets are expected to be enacted prior to July 1.

Federal funds are not appropriated, but are subject to the review and approval of the State Budget Office and the Delaware State Clearinghouse Committee for Federal Aid Coordination. The Committee is comprised of 10 members, including the Secretary of Finance, Budget Director, Director of the Delaware Economic Development Office, the Controller General, and six legislators.

### **Appropriation Limit**

The State Constitution limits annual appropriations by majority vote of both houses of the General Assembly to 98% of estimated budgetary General Fund revenue plus the unencumbered budgetary General Fund balance from the previous year. An appropriation exceeding this limit may be made only in the event of a declared emergency, with the approval of a three-fifths vote of the members of each house of the General Assembly, but no appropriation may be made exceeding 100% of estimated budgetary General Fund revenue plus the unencumbered General Fund balance from the previous year.

### **Budget Reserve Account**

The Budget Reserve Account is designed to provide a cushion against unanticipated revenue shortfalls. The State Constitution provides that at the end of a fiscal year excess unencumbered budgetary General Funds must be placed in a reserve account (the "Budget Reserve Account") up to the level of 5% of the estimated budgetary General Fund revenue used to determine the appropriation limit for that fiscal year. Transfers were made which funded the Budget Reserve Account for fiscal 2003 to the maximum limit of \$136.5 million. Money from the Budget Reserve Account may be appropriated only with the approval of a three-fifths vote of the members of each house of the General Assembly and only for use to fund an unanticipated General Fund deficit or to provide funds required as a result of the enactment of legislation reducing revenue.

### **Tax Limitations**

The State Constitution was amended in May 1980 to limit tax and license fee increases or the imposition of any new taxes or fees. Any tax or license fee increase or the imposition of any new tax or license fee must be passed by a three-fifths vote of each house of the General Assembly, rather than by a simple majority vote, except for tax increases to meet debt service on outstanding obligations of the State for which insufficient revenue is available when such debt service is due.

### **Internal Control**

The State has established and maintains internal control designed to ensure that the assets of the State are protected from loss, theft or misuse, and to ensure that adequate accounting data is compiled to allow for the preparation of financial statements in

conformity with GAAP. Internal control is designed to provide reasonable, but not absolute, assurance that these objectives are met. The concept of reasonable assurance recognizes that the cost of a control should not exceed the benefits likely to be derived, and that evaluation of costs and benefits requires estimates and judgments by State officials. Determination as to the adequacy of the internal control is made within the above framework. State officials believe the State's internal control adequately safeguards assets and provides reasonable assurance of proper recording of financial transactions.

## **Risk Management**

The State is directly exposed to various risks or losses related to employee health care, automobile, worker's compensation, police professional malpractice and property and casualty claims. It is the policy of the State not to purchase commercial insurance to cover these risks. Instead, the State covers all claim settlements and judgments out of its budgetary General Fund. The State continues to carry commercial insurance for other risks of loss, including a portion of the property and casualty liability.

## **Cash Management**

Investment of State funds is the responsibility of the Cash Management Policy Board. The Board, created by State law, establishes policies, terms and conditions for the investment of all money belonging to the State, except money in any State pension fund (reported in the financial statements as the Pension Trust Fund). The Board is comprised of nine members including the Secretary of Finance, the Secretary of State, the State Treasurer, and the Controller General, serving ex-officio, and five members from the private sector appointed by the Governor and confirmed by the State Senate.

## **Debt Administration**

Oversight responsibility for the issuance of debt by the State and its authorities is centralized under the Secretary of Finance, and all debt issuance is subject to the approval of the State's Bond Issuing Officers (the Governor, Secretary of Finance, Secretary of State, and the State Treasurer). The State has a three-part debt limit which restricts the principal amount of new "tax-supported obligations of the State" authorized in any one fiscal year to 5% of estimated net budgetary General Fund revenue for that fiscal year and establishes certain other tests to be met at the time of debt issuance.

## **Pension Plan**

The Delaware State Employees' Pension Plan (the Plan) covers 31,877 active employees and approximately 17,000 retired employees. All State employees (except State Police and State judges) and all local school district employees who qualify as full-time or regular part-time employees participate in the Plan. The other plans funded by the State include the closed State Police Pension Plan, the new State Police Pension

Plan, and the State Judiciary Pension Plan. The Plan, along with the other plans, are known as the Delaware Public Employees' Retirement System (PERS).

The PERS is managed by a Board of Pension Trustees comprised of members from the private sector appointed by the Governor, with the Secretary of Finance and the Director of the Office of State Personnel serving as ex-officio members. The PERS provides retirement, disability and survivor benefits. The PERS is funded on an actuarially basis with the exception of the closed State Police Plan, which remains pay-as-you-go. The funding of PERS is determined by the Pension Trustees, based on annual actuarial analyses undertaken by Milliman & Robertson, Inc.

## **Revenue and Expenditure Forecasting**

Mandated by executive order to submit to the Governor and the General Assembly revenue forecasts for the budgetary General Fund and Transportation Trust Fund, the Delaware Economic and Financial Advisory Council (DEFAC) is currently comprised of 36 members appointed by the Governor from the executive and legislative branches of State government and the private sector. Created in 1977, DEFAC, a fixture in Delaware's budget process, has been endorsed by every Governor since its inception.

DEFAC prepares revenue estimates six times each fiscal year in September, December, March, April, May and June for the current fiscal year and the succeeding two fiscal years. A revenue forecast for the current fiscal year and the succeeding four fiscal years is generated once each year, generally in September. Budgetary General Fund and Transportation Trust Fund expenditure forecasts are generated for the current fiscal year in December, March, April, May and June.

The Transportation Trust Fund is a major part of the State's operating and capital budgets, and, as such, its revenue and expenditures are forecasted along with the budgetary General Fund. Its financial activities are presented as the Delaware Department of Transportation (DELDOT) as an enterprise fund in the accompanying financial statements. Certain budgetary appropriated and non-appropriated Special Funds (i.e., certain user fees and federal funds) are not forecasted through this process.

DEFAC relies on projections of national economic trends, an external econometric model, an econometric model created by the University of Delaware, projections developed by the State's Departments of Finance and Transportation, its members' knowledge of the State's particular economic strengths and weaknesses, and its members' understanding of the structure of the State's revenue system.

The revenue and expenditure forecasts are used in the State budget process to ensure State compliance with the State's constitutional limits on spending and statutory debt limitations. In addition, DEFAC advises the Governor and General Assembly on economic conditions in the State and advises the Governor and the Secretary of Finance on tax policy. DEFAC meetings are open to the public and provide a general forum for

members of the public and private sectors to exchange views on matters of economic and fiscal concern for the State.

## **ECONOMIC CONDITION AND OUTLOOK**

Delaware enjoyed a healthy expansion throughout most sectors of its economy during the 1990's. Throughout the decade, the State consistently outperformed national growth rates. The recent economic slowdown, while relatively long in its duration, has been comparatively mild by historic standards. Delaware appears poised to participate fully in the national economic recovery and add to the gains made during the 1990's.

According to August, 2003 data, the state's personal income, the majority of which consists of labor and proprietor's income, grew by 3.3% from 2001 to 2002, compared with 2.4% for the Mideast region and 2.8% for the nation. Total state personal income in 2002 was \$26.5 billion.

Once regarded primarily as a manufacturing state with high concentrations of employment in chemicals and automobile manufacturing, more recently strong FIRE (finance, insurance and real estate) and services (including government and trade) sectors have become the two largest components of the Delaware economy, representing over 85% of all employment. This fundamental change in the economic base significantly expanded the State's capacity to weather the recessions of the early 1990's and the early part of this decade. This trend is expected to continue and will help Delaware diversify its economic base in periods of economic expansion and to diminish the State's exposure to the economy's inevitable cyclical downturns.

Delaware also continues to be the legal home of over half of all publicly traded corporations in the United States. Delaware is the legal domicile of more than 58% of the companies listed in the "Fortune 500." Since 1989, Delaware has ranked within the top five states in the number of new incorporations.

Looking to the future, Delaware is aggressively pursuing high technology industries, including life sciences research and development, pharmaceuticals, agricultural biotechnology, human biotechnology and information technology. To build on the presence of established leaders in the biotech field like AstraZeneca and DuPont, the State has made a significant investment to establish the Delaware Biotechnology Institute, a partnership involving State government, Delaware's higher education institutions and the private sector designed to expand the State's scientific base and create opportunities for the development of new technologies in the emerging life sciences field.

## **CURRENT DEVELOPMENTS AND MAJOR INITIATIVES**

### **Strong Financial Management**

Delaware's long tradition of handling taxpayers' dollars wisely and efficiently has been recognized by AAA bond ratings. Four principles form the core of this approach: 1) controlling base budget growth; 2) developing sound and responsible tax policy; 3) encouraging debt reduction and utilizing excess one-time cash for capital projects; and 4) maintaining sizable cash balances in reserve.

Beginning in fiscal year 2000, the three principal rating agencies, Moody's Investors Service, Fitch Ratings and Standard & Poor's have rated Delaware's General Obligation bonds Aaa, AAA and AAA, respectively. These ratings were reaffirmed in both bond issuances during fiscal year 2003. They cite such factors as sound financial management and operations, manageable debt burden and above-average wealth and income levels as reasons for awarding Delaware their highest possible ratings.

### **INDEPENDENT AUDIT**

The accounting firm of KPMG LLP has audited the accompanying Basic Financial Statements for the State of Delaware as of, and for the year ended, June 30, 2003. The audit was conducted in accordance with generally accepted auditing standards and the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States. The independent audit involved examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements; assessing the accounting principles used and the significant estimates made by management; and evaluating the overall financial statement presentation. KPMG LLP has concluded, based upon the audit, that there was a reasonable basis for rendering an unqualified opinion that the CAFR for the fiscal year ended June 30, 2003 is fairly presented in conformity with GAAP. The Auditor's report on the financial statements is included in the financial section of this report.

The State Auditor of Accounts performs periodic financial and compliance audits of the various State departments, agencies and institutions of higher education and has primary responsibility for conducting audits under the federal Single Audit Act of 1986, as amended. Results of these audits may be found in separately issued audit reports and may be obtained by contacting the Office of Auditor of Accounts, the Townsend Building, Suite #1, 401 Federal Street, Dover, DE 19901.

### **CERTIFICATE OF ACHIEVEMENT**

The Government Finance Officers Association of the United States and Canada (GFOA) awarded a Certificate of Achievement for Excellence in Financial Reporting to the State of Delaware for its comprehensive annual financial report for the fiscal year

ended June 30, 2002. This is the eighth consecutive year that the State has received this prestigious award. To be awarded a Certificate of Achievement, a government must publish an easily readable and efficiently organized comprehensive annual financial report, whose contents conform to program standards. Such a report must satisfy both generally accepted accounting principles and applicable legal requirements.

A Certificate of Achievement is valid for a period of one year. We believe our current report continues to meet the Certificate of Achievement program requirements and we are submitting it to the GFOA to determine its eligibility for another certificate.

#### **ACKNOWLEDGEMENTS**

The preparation of this Comprehensive Annual Financial Report on a timely basis was made possible by the support of all State agencies and component units that supplied data. I wish to express my special appreciation to my staff and the Division of Accounting as well as all the other individuals and agencies who assisted in the preparation of this report.

We are pleased to announce that the Delaware Comprehensive Annual Report is also available on the Internet. The address is: <http://www.state.de.us/account>.

Sincerely,



David W. Singleton  
Secretary of Finance

# Certificate of Achievement for Excellence in Financial Reporting

Presented to

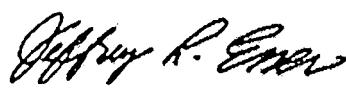
## State of Delaware

For its Comprehensive Annual  
Financial Report  
for the Fiscal Year Ended  
June 30, 2002

A Certificate of Achievement for Excellence in Financial Reporting is presented by the Government Finance Officers Association of the United States and Canada to government units and public employee retirement systems whose comprehensive annual financial reports (CAFRs) achieve the highest standards in government accounting and financial reporting.



President



Executive Director

STATE OF DELAWARE  
SELECTED STATE OFFICIALS  
As of June 30, 2003

CERTAIN ELECTED OFFICIALS:

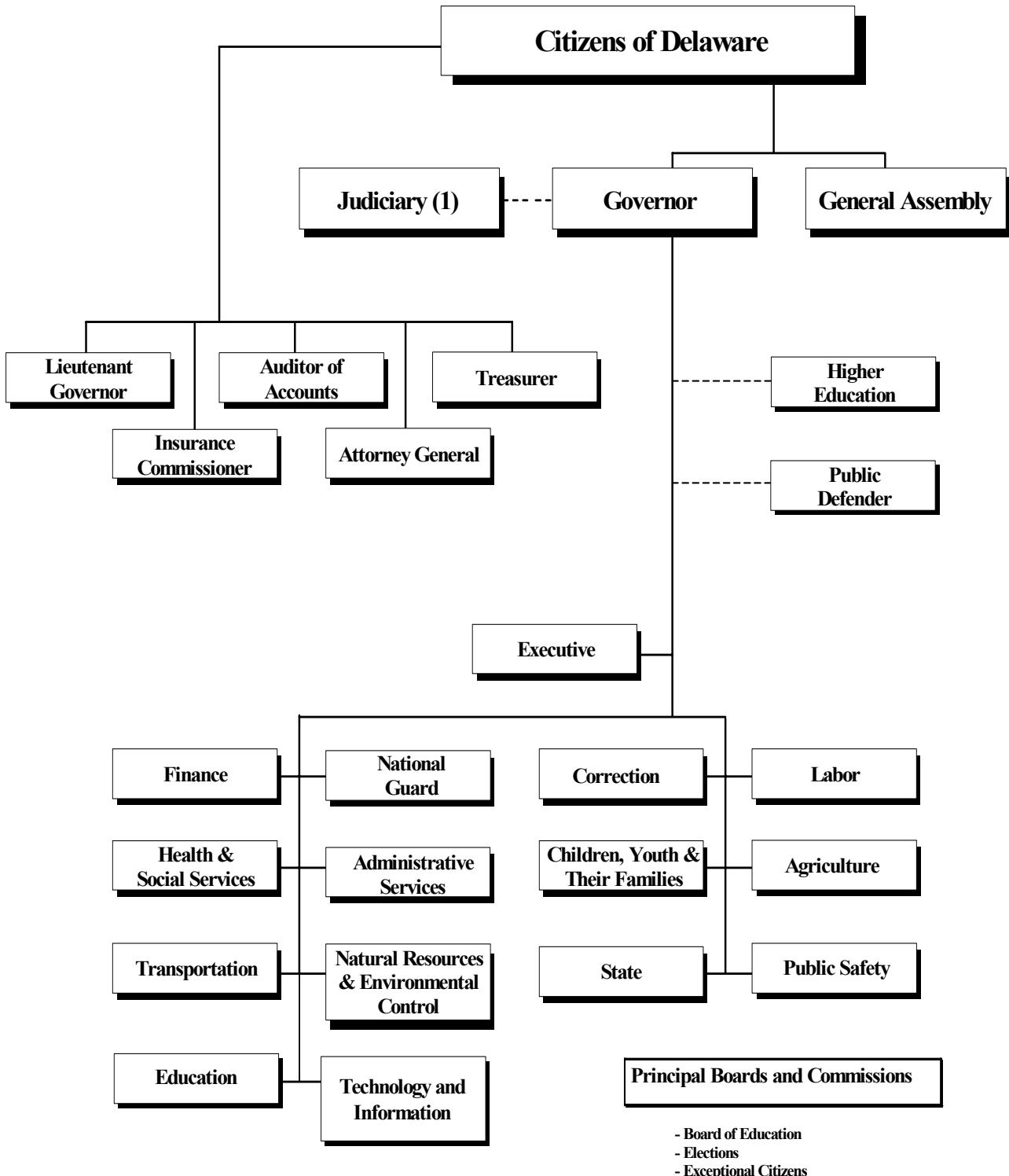
Governor	Ruth Ann Minner
Lt. Governor	John C. Carney
Attorney General	M. Jane Brady
State Treasurer	Jack A. Markell
State Auditor	R. Thomas Wagner
Insurance Commissioner	Donna Lee H. Williams

CERTAIN LEGISLATIVE OFFICIALS:

President Pro Tem of the Senate	Thurman G. Adams, Jr.
Senate Majority Leader	Harris B. McDowell
Senate Minority Leader	John C. Still
Speaker of the House of Representatives	Terry R. Spence
House of Representatives Majority Leader	Wayne A. Smith
House of Representatives Minority Leader	Robert F. Gilligan

CABINET POSITIONS AND OTHER APPOINTED OFFICIALS:

Administrative Services	Gloria Wernicki Homer
Agriculture	Michael T. Scuse
Budget	Jennifer W. Davis
Corrections	Stanley W. Taylor, Jr.
Delaware Economic and Development Office	Judy McKinney-Cherry
Delaware State Housing Authority	Saundra R. Johnson
Education	Valerie A. Woodruff
Finance	David W. Singleton
Health and Social Services	Vincent P. Meconi
Labor	Harold E. Stafford
National Guard	(Major General) Francis D. Vavala
Natural Resources and Environmental Control	John A. Hughes
Personnel	Lisa Blunt-Bradley
Public Safety	James L. Ford, Jr.
Services for Children, Youth and Their Families	Carol Ann DeSantis
State	Harriet N. Smith-Windsor
Technology and Information	Thomas M. Jarrett
Transportation	Nathan Hayward





1601 Market Street  
Philadelphia, PA 19103-2499

## **Independent Auditors' Report**

The Honorable Governor and  
Honorable Members of the State Legislature  
State of Delaware:

We have audited the accompanying financial statements of the governmental activities, the business-type activities, the aggregate discretely presented component units, each major fund, and the aggregate remaining fund information of the State of Delaware (State) as of and for the year ended June 30, 2003, which collectively comprise the State's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the State's management. Our responsibility is to express opinions on these financial statements based on our audit. We did not audit the financial statements of the discretely presented component units, certain major funds, and certain fiduciary funds as disclosed in Note 1(c). The financial statements of these entities were audited by other auditors whose reports thereon have been furnished to us, and our opinion on the basic financial statements, insofar as it relates to the amounts included for these entities, is based solely on the reports of the other auditors.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit and the reports of the other auditors provide a reasonable basis for our opinions.

In our opinion, based on our audit and the reports of the other auditors, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, the aggregate discretely presented component units, each major fund, and the aggregate remaining fund information of the State of Delaware, as of June 30, 2003, and the respective changes in financial position and cash flows, where applicable, thereof for the year then ended in conformity with accounting principles generally accepted in the United States of America.



KPMG LLP KPMG LLP, a U.S. limited liability partnership, is  
a member of KPMG International, a Swiss association.



The management's discussion and analysis on pages 4 through 17, the budgetary comparison schedules for the general fund and special fund on pages 108 through 113, and the information about infrastructure assets reported using the modified approach on pages 114 through 115 are not a required part of the basic financial statements but are supplementary information required by accounting principles generally accepted in the United States of America. We and the other auditors have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we and the other auditors did not audit the information and express no opinion on it.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the State's basic financial statements. The introductory and statistical sections as listed in the table of contents are presented for purposes of additional analysis and are not a required part of the basic financial statements. The introductory and statistical sections have not been subjected to the auditing procedures applied in the audit of the basic financial statements and, accordingly, we express no opinion on them.

*KPMG LLP*

November 26, 2003

## Management's Discussion and Analysis

The following is a discussion and analysis of the State of Delaware's financial activities for the fiscal year ended June 30, 2003. Readers are encouraged to consider the information presented here in conjunction with additional information that is furnished in the letter of transmittal, which can be found on pages i-ix of this report.

These financial statements have been prepared using the new financial accounting model adopted by the Governmental Accounting Standards Board (GASB). This new model represents the biggest change in the history of governmental accounting and financial reporting. This is the second year of implementation in Delaware for these new standards.

### Financial Highlights

- The assets of the State exceeded its liabilities at the close of the most recent fiscal year by \$4.7 billion (net assets). Component units reported net assets of \$525.2 million, an increase of \$5.8 million from the previous year.
- The primary government's total net assets increased by \$50.1 million (1.1%) in fiscal year 2003. Net assets of governmental activities increased by \$146.8 million (9.9%) while net assets of the business-type activities decreased \$96.7 million (3.1%).
- As of the close of the current fiscal year, the State's governmental funds reported combined ending fund balances of \$982.5 million, an increase of \$47.9 million (5.1%) in comparison with the prior year.
- At the end of the current fiscal year, unreserved fund balance for the general fund was \$643.5 million, or 21.9% of total general fund expenditures. For the most part, the unreserved fund balance is not available for new spending. These funds have been committed based on State statutes.
- The State's total general obligation debt increased during the fiscal year to \$854.3 million, an increase of \$144.4 million (20.3%). Approximately 80.9% of new money bonds issued during fiscal year 2003 will be allocated to public and higher education facilities. The remaining 19.1% will be spent on State offices and other facilities.

### Overview of the Financial Statements

This discussion and analysis is intended to serve as an introduction to the State's basic financial statements. The State's basic financial statements are comprised of three components: 1) government-wide financial statements, 2) fund financial statements, and 3) notes to the financial statements. This report also contains this MD&A and other required supplementary information, in addition to the basic financial statements.

**Government-wide financial statements.** The government-wide financial statements are designed to provide readers with a broad overview of the State of Delaware's finances, in a manner similar to a private sector business.

The statement of net assets presents information on all of the State of Delaware's assets and liabilities, with the difference between the two reported as net assets. Over time, increases or decreases in net assets may serve as a useful indicator of whether the financial position of the State of Delaware is improving or deteriorating.

The statement of activities presents information showing how the State's net assets changed during the most recent fiscal year. All changes in net assets are reported as soon as the underlying event giving rise to the change occurs, regardless of the timing of related cash flows. Thus, revenues and expenses are reported in this statement for some items that will only result in cash flows in future fiscal periods (e.g., uncollected taxes and earned but unused vacation leave).

Both of the government-wide financial statements distinguish functions of the State that are principally supported by taxes and intergovernmental revenues (governmental activities) from other functions that are intended to recover all or a significant portion of their costs through user fees and charges (business-type activities). The governmental activities of the State include general government, health and children's services, judicial and public safety, natural resources and environmental control, labor and education. The business-type activities of the State include transportation, lottery and unemployment services.

The government-wide financial statements include not only the State (known as the primary government), but also legally separate entities for which the State of Delaware is financially accountable. These entities include the Delaware State Housing Authority, the Diamond State Port Corporation, the Riverfront Development Corporation, the Delaware State University and 13 charter schools. Financial information for these component units are reported separately from the financial information presented for the primary government. The government-wide financial statements can be found on pages 20-21 of this report.

**Fund financial statements.** A fund is a grouping of related accounts that is used to maintain control over resources that have been segregated for specific activities or objectives. The State, like other state and local governments, uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements. All of the funds of the State of Delaware can be divided into three categories: governmental funds, proprietary funds, and fiduciary funds.

**Governmental funds.** Governmental funds are used to account for essentially the same functions reported as governmental activities in the government-wide financial statements. However, unlike the government-wide financial statements, governmental fund financial statements focus on near-term inflows and outflows of available resources, as well as on balances of available resources on hand at the end of the fiscal year. Such information may be useful in evaluating a government's near-term financing requirements.

Because the focus of governmental funds is narrower than that of the government-wide financial statements, it is useful to compare the information presented for government funds with similar information presented for governmental activities in the government-wide financial statements. By doing so, readers may better understand the long-term impact of the government's near-term financial decisions. Both the governmental fund balance sheet and the governmental fund statement of revenues, expenditures, and changes in fund balances provide a reconciliation to facilitate this comparison between governmental funds and governmental activities.

The State maintains four individual governmental funds: the general fund, the capital projects fund, the federal fund and the local school district fund. Information is presented separately in the governmental fund balance sheet and in the governmental fund statement of revenues, expenditures, and changes in fund balances for these funds.

The State budgets and controls its financial activities on the cash basis of accounting. In compliance with State law, the State records its financial transactions in either of two major categories – the General Fund or the Special Fund. References to these funds in this report include the terms “budgetary” or “budgetary basis” to differentiate them from the GAAP funds of the same name which encompass different funding categories. The State of Delaware adopts an annual appropriated budget for its budgetary general fund. A budgetary comparison statement has been provided for the budgetary general fund to demonstrate compliance with this budget. The statement can be found on page 110 of this report.

The basic governmental fund financial statements can be found on pages 24-27 of this report.

**Proprietary funds.** The State maintains one type of proprietary fund. Enterprise funds are used to report the same functions presented as business-type activities in the government-wide financial statements. The State uses enterprise funds to account for the State Lottery, Unemployment Trust Fund and the Department of Transportation operations.

Proprietary funds provide the same type of information as the government-wide financial statements, but in more detail. The proprietary fund financial statements provide separate information for the State Lottery, Unemployment Trust Fund and the Department of Transportation, all of which are considered to be major funds of the State.

The basic proprietary fund financial statements can be found on pages 30-32 of this report.

**Fiduciary funds.** Fiduciary funds are used to account for resources held for the benefit of parties outside the government. Fiduciary funds are not reflected in the government-wide financial statements because the resources of those funds are not available to support the State's own programs. The pension trust funds are the primary fiduciary funds for the State. The accounting used for fiduciary funds is much like that used for proprietary funds.

The basic fiduciary fund financial statements can be found on pages 34-40 of this report.

**Notes to the financial statements.** The notes provide additional information that is essential to a full understanding of the data provided in the government-wide and fund financial statements. The notes to the financial statements can be found on pages 49-106 of this report.

**Other information.** In addition to the basic financial statements and accompanying notes, this report also presents certain required supplementary information concerning the status of the State's legally adopted budget and the maintenance of the State's infrastructure. Required supplementary information can be found on pages 108-115 of this report.

### Statewide Financial Analysis

As noted earlier, net assets may serve over time as a useful indicator of a government's financial position. In the case of the State of Delaware, assets exceeded liabilities for the primary government by \$4.7 billion at the close of the most recent fiscal year.

The largest portion of the State's net assets (69.3%) reflects its investment in capital assets (e.g., land, buildings, vehicles, and equipment), less any related debt used to acquire those assets that is still outstanding. The State uses these capital assets to provide services to citizens; consequently, these assets are not available for future spending. Although the State's investment in capital assets is reported net of related debt, it should be noted that the resources needed to repay this debt must be provided from other sources, since the capital assets themselves cannot be used to liquidate these liabilities. Restricted net assets, comprising 8.5% of total net assets, represents resources that are subject to external restrictions, constitutional provisions, or enabling legislation on how they can be used. The remaining portion, unrestricted net assets (22.2%), may be used at the State's discretion, but, for the most part, these funds have been appropriated based on State statutes.

#### Net Assets as of June 30, 2003

(Expressed in Thousands)

	Governmental Activities		Business-type Activities		Total	
	2003	2002	2003	2002	2003	2002
Current and other non-current assets						
Capital assets	\$ 1,557,734	\$ 1,456,111	\$ 735,976	\$ 604,535	\$ 2,293,710	\$ 2,060,646
	1,639,195	1,391,083	3,362,818	3,326,760	5,002,013	4,717,843
Total assets	3,196,929	2,847,194	4,098,794	3,931,295	7,295,723	6,778,489
Long-term liabilities outstanding						
Other liabilities	1,071,017	900,354	885,926	655,340	1,956,943	1,555,694
	492,624	460,364	122,646	158,527	615,270	618,891
Total liabilities	1,563,641	1,360,718	1,008,572	813,867	2,572,213	2,174,585
Net assets:						
Invested in capital assets, net of related debt	762,239	680,717	2,464,049	2,645,902	3,226,288	3,326,619
Restricted	136,460	128,930	256,792	310,619	393,252	439,549
Unrestricted	734,589	676,829	299,855	160,907	1,034,444	837,736
Total net assets	\$ 1,633,288	\$ 1,486,476	\$ 3,020,696	\$ 3,117,428	\$ 4,653,984	\$ 4,603,904

The following condensed financial information was derived from the government-wide Statement of Activities and reflects how the State's net assets changed during the fiscal year.

**Changes in Net Assets - Primary Government**  
(Expressed in Thousands)

	Governmental Activities		Business-type Activities		Total Primary Government	
	2003	2002	2003	2002	2003	2002
<b>Revenues:</b>						
Program revenues:						
Charges for services	\$ 512,045	\$ 506,860	\$ 994,052	\$ 1,047,300	\$ 1,506,097	\$ 1,554,160
Operating grants and contributions	772,470	718,815		26,415	772,470	745,230
Capital grants and contributions			115,502	106,938	115,502	106,938
General revenues:						
Taxes:						
Personal income taxes	706,277	718,672			706,277	718,672
Business taxes	1,180,281	1,153,025			1,180,281	1,153,025
Other taxes	201,115	167,258			201,115	167,258
Real estate taxes	267,177	238,574			267,177	238,574
Investment earnings	73,911	58,624	25,073	26,915	98,984	85,539
Gain (Loss) on sale of assets	13,536		(287)	(60)	13,249	(60)
<b>Total revenues</b>	<b>3,726,812</b>	<b>3,561,828</b>	<b>1,134,340</b>	<b>1,207,508</b>	<b>4,861,152</b>	<b>4,769,336</b>
<b>Expenses:</b>						
General Government	341,054	445,502			341,054	445,502
Health and Children's Services	1,363,289	1,240,332			1,363,289	1,240,332
Judicial and Public Safety	422,921	389,806			422,921	389,806
Natural Resources and Environmental Control	100,171	111,443			100,171	111,443
Labor	59,521	60,650			59,521	60,650
Education	1,422,820	1,370,137			1,422,820	1,370,137
Payment to Component Unit - General Government	10,107	8,821			10,107	8,821
Payment to Component Unit - Education	64,670	40,571			64,670	40,571
Interest Expense	42,000	31,576			42,000	31,576
Lottery			353,840	380,084	353,840	380,084
Transportation			504,463	446,473	504,463	446,473
Payment to Component Unit			946		946	0
Unemployment			125,270	116,538	125,270	116,538
<b>Total expenses</b>	<b>3,826,553</b>	<b>3,698,838</b>	<b>984,519</b>	<b>943,095</b>	<b>4,811,072</b>	<b>4,641,933</b>
Increase (Decrease) in net assets before transfers	(99,741)	(137,010)	149,821	264,413	50,080	127,403
Transfers	246,553	266,090	(246,553)	(266,090)	0	0
<b>Increase (decrease) in net assets</b>	<b>146,812</b>	<b>129,080</b>	<b>(96,732)</b>	<b>(1,677)</b>	<b>50,080</b>	<b>127,403</b>
Net assets - Beginning of Year	<u>1,486,476</u>	<u>1,357,396</u>	<u>3,117,428</u>	<u>3,119,105</u>	<u>4,603,904</u>	<u>4,476,501</u>
Net assets - End of Year	<u>\$ 1,633,288</u>	<u>\$ 1,486,476</u>	<u>\$ 3,020,696</u>	<u>\$ 3,117,428</u>	<u>\$ 4,653,984</u>	<u>\$ 4,603,904</u>

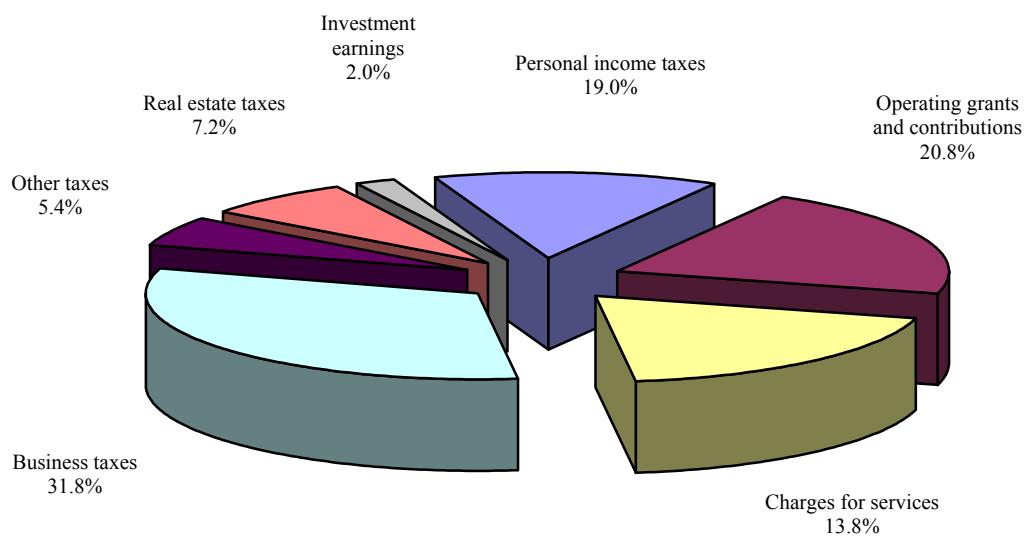
**Governmental activities.** Governmental activities increased the State's net assets by \$146.8 million. The decrease by the business-type activities of \$96.7 million is explained on the following page. A comparison of the cost of services by function for the State's governmental activities is shown in the following chart, along with the revenues used to cover the net expenses of the governmental activities. Key elements of the increase in net assets are as follows:

Total general revenues increased \$92.6 million (4.0%) based on growth primarily in realty transfer tax of \$28.6 million (12.0%) and abandoned property increases of \$75.4 million (48.4%). For a second consecutive year, the realty transfer tax grew due to low mortgage rates and a continued building boom throughout the State. Growth in abandoned property was due to a large settlement (\$45.0 million) and a strong enforcement program. Personal income tax decreased \$12.4 million (1.8%) due to a sluggish economy, declines in capital gain income and weak wage growth.

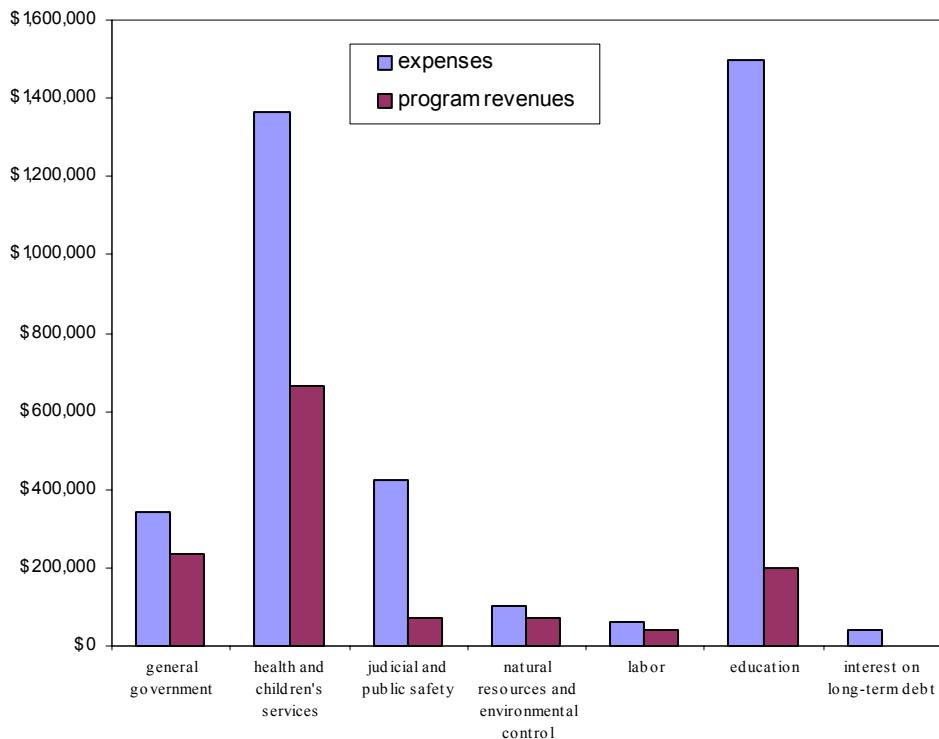
Charges for services and operating grants and contributions increased by \$58.8 million (4.8%). This increase was due primarily to increases in grant revenues at the Department of Health and Social Services (\$32.8 million) and the Department of Education (\$9.6 million).

Expenses for governmental activities increased during fiscal year 2003 by \$127.7 million (3.5%). Of this increase, \$123.0 million was due to increased spending in Health and Children's Services. This increase can be attributable to escalating health care costs and an increase in the population served. Temporary Assistance for Needy Families grew by 6.5% in fiscal year 2003 over the previous year. Salaries increased statewide by \$49.8 million (3.2%). Health insurance costs increased \$51.4 million (16.3%). The General Government function showed a decrease in spending of \$104.4 million (23.4%) due to budget cuts and a hiring freeze enacted by the Governor during the year.

### Revenues by Source – Governmental Activities



## Expenses and Program Revenues – Governmental Activities



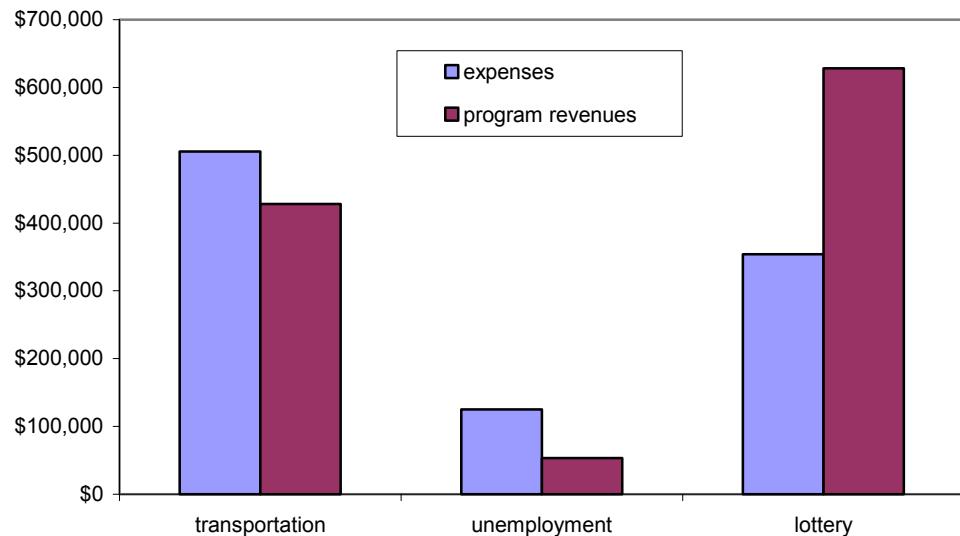
**Business-type activities.** Business-type activities decreased the State's net assets by \$96.7 million. This resulted from a \$53.8 million decrease in net assets by the Delaware Unemployment Insurance Trust Fund, a decrease in net assets of \$43.3 million by the Delaware Department of Transportation and an increase of \$.4 million in the Delaware State Lottery.

The decrease in net assets of the Delaware Unemployment Insurance Trust Fund can be attributed to unemployment benefits increasing by 14.0% (\$15.5 million), unemployment insurance tax revenues during fiscal 2003 decreasing by 6.6% (\$4.0 million), and benefits expense exceeding tax revenues by \$71.7 million. Based upon a report from the U.S. Department of Labor, as of June 30, 2003, the Delaware Unemployment Trust Fund's net asset's were ranked 5<sup>th</sup> strongest in the nation. This ranking was based on the AHCM (average high cost multiple) methodology used by the U.S. Department of Labor to evaluate financial strength of states' Unemployment Trust Funds.

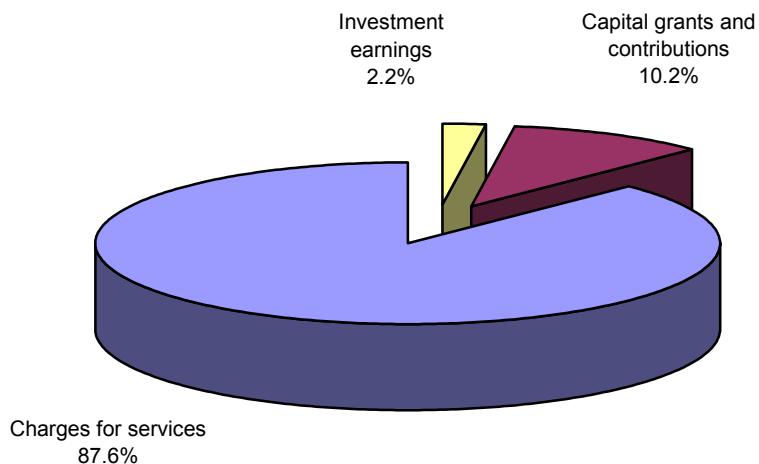
The Delaware Department of Transportation's net assets at June 30, 2003 were \$43.3 million lower than June 30, 2002. The Department's total operating revenues remained fairly constant at \$312.5 million and total operating expenses increased \$42.5 million to \$458.5 million. Contributing factors for the increase in operating expenses for fiscal year 2003 are investments in the maintenance, preservation, and repair of the Department's assets and storm-related costs.

The Delaware Lottery experienced an increase in net assets of \$.4 million. Lottery revenues decreased \$45.9 million, or nearly 7% from the previous year while operating expenses decreased by 12.3% from the previous year. The decline in revenues can be partly attributed to a downturn in the economy and a reduction in the number of patrons who used the State's three gaming facilities.

### Expenses and Program Revenues – Business-type Activities



### Revenues by Source – Business-type Activities



## **Financial Analysis of the State's Funds**

As noted earlier, the State uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements.

**Governmental funds.** The focus of the State's governmental funds is to provide information on near-term inflows, outflows, and balances of available resources. Such information is useful in assessing the State of Delaware's financing requirements. Unreserved fund balances may serve as a useful measure of a government's net resources at the end of the fiscal year.

As of the end of the current fiscal year, the State of Delaware's governmental funds reported combined ending fund balances of \$982.5 million, an increase of \$47.9 million in comparison with the prior year. Approximately one-half of the aggregate fund balances, \$547.7 million constitutes unreserved fund balances. The unreserved fund balances, for the most part, are not available for new spending. These funds have been committed to various uses based on State statutes. The remainder of the fund balances are reserved to indicate that they are not available for new spending due to the following: 1) to liquidate contracts and purchase orders of the prior period (\$223.3 million), 2) reserve for long-term loans (\$70.4 million), 3) set aside for the budget reserve account (\$136.5 million), or 4) for inventories and other assets (\$4.7 million).

The general fund is the chief operating fund of the State. At the end of the current fiscal year, unreserved fund balance of the general fund was \$643.5 million, while total fund balance reached \$949.1 million. As a measure of the general fund's liquidity, it may be useful to compare both unreserved fund balance and total fund balance to total fund expenditures. Unreserved fund balance represents 21.9% of total general fund expenditures, while total fund balance represents 32.3% of that same amount.

Total general fund balance increased during the fiscal year by \$27.4 million. Based on anticipated reductions in revenues, budget cuts were initiated and a hiring freeze was implemented early in the fiscal year. However, as of the end of fiscal 2003, general fund expenditures were below the level of appropriations and revenues exceeded budgeted amounts.

**Proprietary funds.** The State of Delaware's proprietary funds provide the same type of information found in the government-wide financial statements, but in more detail. The proprietary fund financial statements provide separate information for the State Lottery, Unemployment Trust Fund and the Department of Transportation, all of which are considered to be major funds of the State.

The State's net assets decreased in fiscal 2003 by \$96.7 million as a result of operations in the proprietary funds. See page 10 for a discussion of the business-type activities.

## **General Fund Budgetary Highlights**

The Budgetary General Fund is the chief operating fund of the State. At the end of the fiscal year, total fund balance diminished by \$17.8 million (3.7%). Revenues were \$10.7 million higher (0.4% percent) than the previous fiscal year due to an increase in collections from the realty transfer tax, cigarette taxes, bank franchise tax and increases in abandoned property collections. Expenditures were \$.4 million higher than the previous fiscal year. Salaries, fringe benefits, pension costs and welfare payments were up \$55.1 million (3.4%) whereas contractual services and capital outlay expenditures were down \$65.9 million (20.4%).

The following summarizes the differences between the final appropriated budget (the original budget in addition to encumbrances and multi-year project budgetary carry-forwards from the prior fiscal year) and actual expenditures. As it became apparent in the early months of the fiscal year that the economy was slowing, measures were taken to reduce spending through hiring freezes and budget cuts across all agencies.

- \$86.6 million in decreases in general government activities
- \$64.7 million in decreases in education
- \$37.8 million in decreases in Health and Children's services
- \$12.5 million in decreases in the Department of Natural Resources and Environmental Control.
- \$10.7 million in decreases in the Judicial and Public Safety departments.

Budgetary Special Fund are designated for specific purposes. The appropriated budgetary Special Fund is credited with tax or other revenue allocated to such fund and is charged with the related disbursements. State park operations and fees charged by the Public Service Commission are examples of specific uses of budgetary Special Funds. Federal payments, unemployment compensation and local school funds are examples of non-appropriated Special Funds.

At the end of the fiscal year, total fund balance of the appropriated budgetary Special Funds increased \$6.7 million. Revenues remained unchanged from the previous year while expenditures increased \$10.5 million (2.3%). The differences between the final appropriated budget (the original budget in addition to encumbrances and multi-year project budgetary carry-forwards from the prior fiscal year) and actual expenditures can be accounted for in much the same way as the General Fund.

## Capital Asset and Debt Administration

**Capital assets.** The State of Delaware's investment in capital assets for its governmental and business-type activities, as of June 30, 2003, amounts to \$5.0 billion (net of accumulated depreciation). This investment in capital assets includes land, land improvements, buildings, vehicles and equipment, easements, roads, highways, and bridges. The total increase in capital assets for governmental activities was \$248.1 million (17.8%) and an increase of \$36.3 million (1.1%) for business-type activities.

Major capital asset events during the current fiscal year included the following:

- Completion of the New Castle County Courthouse (\$129.4 million), the archives center (\$15.3 million), new schools and improvements to existing schools (\$76.7 million) and the purchase of various parcels of land by the Division of Parks and Recreation (\$18.8 million). In addition, construction-in-progress as of June 30, 2003 was \$296.8 million for governmental activities. Of this amount, approximately 59.1% is related to the building of new schools and improvements to existing schools.
- As of June 30, 2003, the Department of Transportation had invested \$3,362.4 million in capital assets, including roads, bridges, buildings, land, and equipment. This amount represents a net increase (including additions and net of disposals, and depreciation) of \$36.3 million over June 30, 2002. A contributing factor to the increase of the Department's capital assets is the substantial completion of SR-1. In May 2003, the Department opened the final section of this 41 mile, fully controlled access, highway extending from a connection with the southern terminus of the new SR-1 toll road south of Wilmington, to points south of Dover on U.S. Routes 13 and 113. SR-1 is the largest public works project ever undertaken in Delaware.

### State of Delaware Capital Assets as of June 30

#### Net of Depreciation

(Expressed in Thousands)

	Governmental Activities		Business-type Activities		Total Primary Government	
	2003	2002	2003	2002	2003	2002
Land	\$ 286,424	\$ 265,155	\$ 11,230	\$ 11,230	\$ 297,654	\$ 276,385
Land Improvements	23,587	23,160			23,587	23,160
Buildings	914,996	525,653	33,016	33,419	948,012	559,072
Easements	66,822	64,344			66,822	64,344
Equipment and vehicles	50,568	50,652	91,761	80,297	142,329	130,949
Infrastructure			3,226,811	3,201,814	3,226,811	3,201,814
Construction-in-progress	296,798	462,119			296,798	462,119
Total	<u>\$ 1,639,195</u>	<u>\$ 1,391,083</u>	<u>\$ 3,362,818</u>	<u>\$ 3,326,760</u>	<u>\$ 5,002,013</u>	<u>\$ 4,717,843</u>

As allowed by GASB Statement No. 34, the State has adopted an alternative process for recording expense related to selected infrastructure assets. Under this alternative method, referred to as the modified approach, the State expenses certain maintenance and preservation costs and does not report depreciation expense. Assets accounted for under the modified approach include 11,057 center-line miles of roads and 1,386 bridges that the State is responsible to maintain.

The Department of Transportation performs condition assessments of eligible infrastructure assets at least every three years. Currently road condition assessments are conducted every year and bridge condition assessments are conducted, for the most part, every two years.

It is the Department of Transportation's policy to maintain at least 75 percent of its highways and bridge system at a Good or Better condition rating. No more than 10 percent of bridges and 15 percent of roads should be in substandard condition.

Of the State's 1,386 bridges that were rated in 2002, 1,011 or 72.9 percent received a Good or Better BCR rating, 19.7 percent were rated fair, and 7.4 percent received a substandard rating. Of the 8,653,408 square feet of bridge deck that was rated, 75.4 percent or 6,522,812 square feet received an OPC condition rating of Good or Better, 19.1 percent or 1,650,368 square feet received a fair rating, and 5.4 percent or 480,228 square feet received a substandard deck rating.

In 2002, when 4,175 centerline miles were rated, 76.6 percent received a Good or Better OPC rating, 13.6 percent received a fair rating, and 9.8 percent received a poor rating.

The 2003 estimate to maintain and preserve the Department of Transportation's infrastructure was \$129.2 million, but the actual expenditure was \$146.4 million, which is a \$17.2 million increase over the estimate. The variance is predominantly attributed to change orders necessary on jobs that were not estimated when the project was set up and budgeted.

The fiscal 2004 statewide capital budget totals \$576.6 million. Of that amount, \$268.9 million is allocated for non-transportation projects statewide and \$307.7 million for Transportation Trust Fund projects. Major non-transportation projects that will be completed during the upcoming year include the Carvel State Office Building renovations (\$14.9 million), the Stevenson House secure care facility (\$15.3 million), the new Delaware State Police Troop 2 facility (\$11.3 million) and the Smyrna Readiness Center (\$7.6 million).

Additional information on the State's capital assets can be found in Note 1 on pages 57-58, Note 12 on page 85 and on pages 114-115 of the Required Supplementary Information.

**Long-term debt.** At the end of the current fiscal year, the State had total general obligation bond debt outstanding of \$854.3 million, backed by the full faith and credit of the State. The Delaware Department of Transportation Trust Fund had revenue bonds outstanding of \$863.1 million. The bonds do not constitute a debt of the State or a pledge of the general taxing power or the faith and credit of the State. The Delaware Economic Development Office has \$.2 million of industrial development revenue bonds outstanding, which are supported by the full faith and credit of the State.

**State of Delaware Outstanding Debt  
General Obligation and Revenue Bonds**  
(Expressed in Millions)

	Governmental Activities		Business-type Activities		Total Primary Government	
	2003	2002	2003	2002	2003	2002
General obligation bonds	\$ 854.3	\$ 709.9			\$ 854.3	\$ 709.9
Revenue bonds	0.2	0.4	\$ 863.1	\$ 675.7	863.3	676.1
Total	<u>854.5</u>	<u>710.3</u>	<u>863.1</u>	<u>675.7</u>	<u>1,717.6</u>	<u>1,386.0</u>

The State of Delaware's total debt increased by \$144.4 million (20.3%) during fiscal year 2003. The key factors in this increase were public and higher education facilities, prison construction, State offices and other facilities. The State has undertaken a series of bond refundings, which have lowered the overall debt service on outstanding State general obligation debt. The State refunded \$132.7 million of its general obligation bonds in August 2002 and refunded another \$34.5 million in April 2003 for a combined cash flow savings of \$8.7 million.

Transportation Systems Revenue Bonds are issued with the approval of the State's General Assembly, and the State's Bond Issuing Officers (the Governor, the Secretary of Finance, the Secretary of State, and the State Treasurer) to finance improvements to the State's transportation systems. Approval by the General Assembly of the State is not required for the Transportation Fund to issue bonds to refund any of its bonds provided a present value debt service savings is achieved in such refunding. The sale must comply with the rules and regulations of the United States Treasury Department and the United States Securities and Exchange Commission.

At June 30, 2003, the Transportation Fund's debt increased by \$187.4 million (27.7%). During the past year, \$88.4 million of new money bonds were issued in August 2002 and \$85.3 million of bonds were refunded. In April 2003, \$140.5 million on new money bonds were issued and \$136.7 million of bonds were refunded. The bonds were insured and are rated AAA by Standard & Poor's and Aaa by Moody's. Of the 11 outstanding bond issues, three have an AA rating from Standard & Poor's and an A1 rating from Moody's. The remaining eight issues are rated AAA by S&P and Aaa by Moody's.

There is no State Constitutional debt limit; however, in 1991, the State enacted legislation to replace the previous statutory debt limits with a three-part debt limit, one of which restricts new debt authorization to 5% of budgetary General Fund revenue as projected on June 30 for the next fiscal year. Should revenue collections increase during the fiscal year, no additional authorizations are made. For further information concerning the State's debt limits, see page 127 of the Statistical Section.

Additional information on the State of Delaware's long-term debt can be found in Note 5 on pages 69-72 of this report.

### **Economic Factors and Next Year's Budgets and Rates**

Fiscal year 2003's GDP was reduced from 2.8% growth forecasted in March 2003 to an estimated growth rate of 2.6% according to Global Insights. At 3.3% growth, the real GDP forecast for fiscal year 2004 reflects the economy's recent recovery. As of June 2003, the Department of Finance estimated that employment in Delaware had declined by 0.4% during fiscal year 2003. The most dramatic job losses occurred in the manufacturing sector.

A revenue enhancement package was passed at the conclusion of the 2003 Legislative session. House Bills 267 and 268 increased various corporate taxes and fees. House Bill 269 increased the State's share of video lottery proceeds, extends the video lottery operating hours and allows for additional video lottery machines at each licensed racetrack. House Bill 270 increased the cigarette tax from 24 to 55 cents per pack. The revenue package is expected to generate approximately \$143.0 million in new revenues.

The fiscal year 2004 operating and capital budgets meet budgetary spending limitations imposed by law. Although the budget reflects higher growth rates in revenues, the rate of growth in operating programs is expected to decline. Capital budget appropriations closed the gap, increasing from \$19.3 million in fiscal year 2003 to over \$142 million in fiscal year 2004.

### **Requests for Information**

This financial report is designed to provide a general overview of the State of Delaware's finances for all those with an interest in the government's finances. Questions concerning any of the information provided in this report or requests for additional financial information should be addressed to the Director of Accounting, 540 South DuPont Highway, Thomas Collins Building, Suite 3, Dover, Delaware 19901. Our CAFR can also be found on the "Department of Finance/Division of Accounting Home Page" at our Internet address: <http://www.state.de.us/account>.

The State's component units publish their own separately issued audited financial statements. These statements may be obtained from their respective administrative offices or from the Office of Auditor of Accounts, the Townsend Building, Suite #1, 401 Federal Street, Dover, DE 19901.

STATE OF DELAWARE  
 STATEMENT OF NET ASSETS  
 JUNE 30, 2003  
 (Expressed in Thousands)

	Primary Government				Component Units
	Governmental Activities		Business-type Activities	Total	
<b>ASSETS</b>					
<b>Current Assets:</b>					
Cash and cash equivalents	\$ 505,117	\$ 282,345	\$ 787,462	\$ 22,220	
Cash and cash equivalents - restricted		1,073	1,073		
Investments	100,753	292,938	393,691	2,889	
Investments - restricted				52,053	
Accounts and other receivables, net	219,925	44,817	264,742	97,716	
Internal balances	1,371	(1,371)			
Inventories	4,707	7,884	12,591	537	
Prepaid items and deferred charges	4,294	425	4,719	3,685	
Loans and notes receivable, net	270		270		
Other current assets	6,603	486	7,089	1,152	
<b>Total current assets</b>	<b>843,040</b>	<b>628,597</b>	<b>1,471,637</b>	<b>180,252</b>	
<b>Noncurrent Assets:</b>					
Cash and cash equivalents - restricted				319	
Long-term investments	644,298	65,759	710,057	91,758	
Long-term investments-restricted		12,325	12,325	13,077	
Accrued interest receivable				2,279	
Loans and notes receivable, net	70,396	27,500	97,896	386,807	
Capital assets, net	1,639,195	3,362,818	5,002,013	387,649	
Deferred bond issuance costs				5,435	
Other noncurrent assets		1,795	1,795	5,585	
<b>Total noncurrent assets</b>	<b>2,353,889</b>	<b>3,470,197</b>	<b>5,824,086</b>	<b>892,909</b>	
<b>Total assets</b>	<b>3,196,929</b>	<b>4,098,794</b>	<b>7,295,723</b>	<b>1,073,161</b>	
<b>LIABILITIES</b>					
<b>Current liabilities:</b>					
Accounts payable	303,727	69,526	373,253	13,615	
Accrued liabilities	5,663	33,682	39,345	9,802	
Interest payable	14,647	17,938	32,585		
Notes payable				5,699	
Deferred revenues		6,042	6,042	490	
Capital leases				28	
Escheat liabilities	24,700		24,700		
Compensated absences		3,613	3,613	16	
Claims and judgements	49,154	2,117	51,271		
Escrow deposits		1,061	1,061	207	
Current portion of general obligation long-term debt	94,312	47,640	141,952	10,672	
Revenue bonds				12,290	
Current portion of other long-term obligations	421		421		
Other current liabilities		10,553	10,553		
<b>Total current liabilities</b>	<b>492,624</b>	<b>192,172</b>	<b>684,796</b>	<b>52,819</b>	
<b>Noncurrent liabilities:</b>					
Claims and judgements	64,304	14,481	78,785		
Pension obligation	80,577		80,577		
Compensated absences	112,534	7,991	120,525	990	
Escheat liabilities	28,000		28,000		
Escrow deposits				30,364	
Liabilities payable from restricted assets		12,325	12,325		
General obligation long-term debt	759,950	815,505	1,575,455	462,908	
Other long-term obligations	22,484		22,484		
Other noncurrent liabilities	3,168	35,624	38,792	922	
<b>Total noncurrent liabilities</b>	<b>1,071,017</b>	<b>885,926</b>	<b>1,956,943</b>	<b>495,184</b>	
<b>Total liabilities</b>	<b>1,563,641</b>	<b>1,078,098</b>	<b>2,641,739</b>	<b>548,003</b>	
<b>Net Assets</b>					
Invested in capital assets, net of related debt	762,239	2,464,049	3,226,288	277,811	
Restricted	136,460	256,792	393,252	210,398	
Unrestricted	734,589	299,855	1,034,444	36,949	
<b>Total Net Assets</b>	<b>\$ 1,633,288</b>	<b>\$ 3,020,696</b>	<b>\$ 4,653,984</b>	<b>\$ 525,158</b>	

See Accompanying Notes to the Financial Statements

**STATE OF DELAWARE**  
**STATEMENT OF ACTIVITIES**  
**FOR THE FISCAL YEAR ENDED JUNE 30, 2003**  
(Expressed in Thousands)

Function	Program Revenues					Net (Expenses) Revenue and Changes in Net Assets		
	Expenses	Charges for Services		Operating Grants and Contributions	Capital Grants and Contributions	Primary Government		Component Units
		Governmental Activities	Business-Type Activities	Total				
<b>Primary government:</b>								
Governmental activities:								
General Government	\$ 341,054	\$ 166,077	\$ 69,386		\$ (105,591)		\$ (105,591)	
Health and Children's Services	1,363,289	142,245	523,675		(697,369)		(697,369)	
Judicial and Public Safety	422,921	49,809	21,098		(352,014)		(352,014)	
Natural Resources and Environmental Control	100,171	53,009	18,429		(28,733)		(28,733)	
Labor	59,521	4,726	34,364		(20,431)		(20,431)	
Education	1,422,820	96,179	105,518		(1,221,123)		(1,221,123)	
Payment to Component Unit -								
General Government	10,107				(10,107)		(10,107)	
Education	64,670				(64,670)		(64,670)	
Interest	42,000				(42,000)		(42,000)	
Total governmental activities	<u>3,826,553</u>	<u>512,045</u>	<u>772,470</u>		<u>(2,542,038)</u>		<u>(2,542,038)</u>	
Business-type activities:								
Lottery	353,840	628,064				\$ 274,224	274,224	
Transportation	504,463	312,463		115,502		(76,498)	(76,498)	
Payment to Component Unit	946					(946)	(946)	
Unemployment	125,270	53,525				(71,745)	(71,745)	
Total business-type activities	<u>984,519</u>	<u>994,052</u>		<u>115,502</u>		<u>125,035</u>	<u>125,035</u>	
Total primary government	<u>\$ 4,811,072</u>	<u>\$ 1,506,097</u>	<u>\$ 772,470</u>	<u>\$ 115,502</u>				
<b>Component units:</b>								
Delaware State Housing Authority	\$ 81,575	\$ 31,411	\$ 41,424	\$ 923			\$ (7,817)	
Diamond State Port Corporation	29,000	26,829		190			(1,981)	
Riverfront Development Corporation	8,467	2,922	1,878				(3,667)	
Delaware State University	63,689	19,776	12,707	633			(30,573)	
Delaware Charter Schools	37,677	365	870	796			(35,646)	
Total component units	<u>\$ 220,408</u>	<u>\$ 81,303</u>	<u>\$ 56,879</u>	<u>\$ 2,542</u>			<u>(79,684)</u>	
<b>General Revenues</b>								
Taxes:								
Personal income					706,277		706,277	
Business					1,180,281		1,180,281	
Other					201,115		201,115	
Real estate					267,177		267,177	
Payments from primary government							75,723	
Investment earnings					73,911	25,073	98,984	9,659
Gain (Loss) on sale of assets					13,536	(287)	13,249	(140)
Miscellaneous								205
Transfers					246,553	(246,553)		
Total General Revenues and Transfers					<u>2,688,850</u>	<u>(221,767)</u>	<u>2,467,083</u>	<u>85,447</u>
Change in Net Assets					146,812	(96,732)	50,080	5,763
<b>Net Assets - Beginning of Year</b>					<u>1,486,476</u>	<u>3,117,428</u>	<u>4,603,904</u>	<u>519,395</u>
<b>Net Assets - End of Year</b>					<u>\$ 1,633,288</u>	<u>\$ 3,020,696</u>	<u>\$ 4,653,984</u>	<u>\$ 525,158</u>

See Accompanying Notes to the Financial Statements

**STATE OF DELAWARE**  
**COMBINED BALANCE SHEET**  
**GOVERNMENTAL FUNDS**  
**JUNE 30, 2003**  
(Expressed in Thousands)

	<b>General</b>	<b>Federal</b>	<b>Local School District</b>	<b>Capital Projects</b>	<b>Total Governmental Funds</b>
<b>ASSETS</b>					
Cash and cash equivalents	\$ 496,955	\$ 351	\$ 7,811		\$ 505,117
Investments	604,586		140,465		745,051
Accounts receivable, net	45,688	4,127	27		49,842
Taxes receivable, net	86,023		16,198		102,221
Intergovernmental receivables, net		67,862			67,862
Due from other funds	83,402				83,402
Inventories	4,676	8	23		4,707
Loans and notes receivable	64,587	6,079			70,666
Other assets	6,603				6,603
<b>Total assets</b>	<b>\$ 1,392,520</b>	<b>\$ 78,427</b>	<b>\$ 164,524</b>	<b>=====</b>	<b>\$ 1,635,471</b>
<b>LIABILITIES AND FUND BALANCES (DEFICITS)</b>					
<b>Liabilities:</b>					
Accounts payable	\$ 205,495	\$ 48,480	\$ 37,896	\$ 11,857	\$ 303,728
Accrued liabilities	5,663				5,663
Claims and judgements	49,154				49,154
Escheat liability	24,700				24,700
Due to other funds		32,249		49,782	82,031
Other obligations	391				391
Deferred revenues	158,064	14,204	15,035		187,303
<b>Total liabilities</b>	<b>443,467</b>	<b>94,933</b>	<b>52,931</b>	<b>61,639</b>	<b>652,970</b>
<b>Fund balances (deficits):</b>					
Reserved for:					
Encumbrances	100,118	25,306	10,125	87,706	223,255
Inventories	4,676	8	23		4,707
Long-term portion of loans and notes receivable	64,338	6,058			70,396
Budget reserve	136,460				136,460
Unreserved	643,461	(47,878)	101,445	(149,345)	547,683
<b>Total fund balances (deficits)</b>	<b>949,053</b>	<b>(16,506)</b>	<b>111,593</b>	<b>(61,639)</b>	<b>982,501</b>
<b>Total liabilities and fund balances (deficits)</b>	<b>\$ 1,392,520</b>	<b>\$ 78,427</b>	<b>\$ 164,524</b>	<b>\$ 0</b>	<b>\$ 1,635,471</b>

See Accompanying Notes to the Financial Statements

**STATE OF DELAWARE**  
**RECONCILIATION OF THE GOVERNMENTAL FUNDS BALANCE SHEET**  
**TO THE STATEMENT OF NET ASSETS**  
(Expressed in Thousands)

**Total Fund Balances - Governmental Funds** \$ 982,501

Amounts reported for governmental activities in the statement of net assets are different because:

Net capital assets used in governmental activities are not financial resources and therefore are not reported in the funds. These assets consist of:

Land	\$ 286,424
Land improvements	23,587
Buildings	914,996
Easements	66,822
Equipment	50,568
Construction in progress	<u>296,798</u>
	1,639,195

Some of the State's revenues will be collected after year-end but are not available soon enough to pay for the current period's expenditures and therefore are deferred in the funds. 187,303

Some liabilities net of related assets are not due and payable in the current period and therefore are not reported in the funds. Those liabilities consist of:

Interest payable	\$ (14,647)
Claims and judgments (long-term)	(64,303)
Compensated absences	(112,534)
Pension obligation	(80,577)
Long-term debt and other obligations	(857,460)
Unamortized premiums	(22,484)
Unamortized deferred charges	4,294
Escheat liability	\$ (28,000) <u>(1,175,711)</u>

**Net assets of governmental activities** \$ 1,633,288

**STATE OF DELAWARE**  
**STATEMENT OF REVENUES, EXPENDITURES AND CHANGES**  
**IN FUND BALANCES (DEFICITS)**  
**GOVERNMENTAL FUNDS**  
**FOR THE YEAR ENDED JUNE 30, 2003**  
(Expressed in Thousands)

	<b>General</b>	<b>Federal</b>	<b>Local School District</b>	<b>Capital Projects</b>	<b>Total Governmental Funds</b>
<b>REVENUES</b>					
Personal taxes	\$ 711,263				\$ 711,263
Business taxes	1,181,667				1,181,667
Other tax revenue	201,063		\$ 258,673		459,736
Licenses, fees, permits and fines	241,370	\$ 14	279		241,663
Rentals and sales	20,621	9	22,831		43,461
Federal government	61,966	711,787	1,972		775,725
Interest & other investment income	65,205	20	8,685	\$ 1	73,911
Other	216,068	2,318	41,884		260,270
<b>TOTAL REVENUES</b>	<b>2,699,223</b>	<b>714,148</b>	<b>334,324</b>	<b>1</b>	<b>3,747,696</b>
<b>EXPENDITURES</b>					
Current:					
General government	398,653	14,443			413,096
Health and children's services	839,173	533,532			1,372,705
Judicial and public safety	395,086	14,998			410,084
Natural resources and environmental control	97,951	18,448			116,399
Labor	25,568	33,932			59,500
Education	1,003,769	114,783	314,385		1,432,937
Payment to component unit -					
General government	5,947			4,160	10,107
Education	53,633	2,261	8,776		64,670
Capital outlay				189,713	189,713
Debt service:					
Principal	84,079				84,079
Interest and other charges	33,676				33,676
<b>TOTAL EXPENDITURES</b>	<b>2,937,535</b>	<b>732,397</b>	<b>323,161</b>	<b>193,873</b>	<b>4,186,966</b>
<b>REVENUES OVER (UNDER) EXPENDITURES</b>	<b>(238,312)</b>	<b>(18,249)</b>	<b>11,163</b>	<b>(193,872)</b>	<b>(439,270)</b>
<b>OTHER SOURCES (USES) OF FINANCIAL RESOURCES</b>					
Transfers in	474,634		2,663		477,297
Transfers out	(31,180)		(21,836)	(177,728)	(230,744)
Proceeds from general obligation bonds				395,455	395,455
Premiums on bond sales				23,864	23,864
Costs of issuance -					
Expenditures of bond sale				(981)	(981)
Payment to bond refunding agent	(177,728)				(177,728)
<b>TOTAL OTHER SOURCES (USES) OF FINANCIAL RESOURCES</b>	<b>265,726</b>		<b>(19,173)</b>	<b>240,610</b>	<b>487,163</b>
<b>Net change in fund balances</b>	<b>27,414</b>	<b>(18,249)</b>	<b>(8,010)</b>	<b>46,738</b>	<b>47,893</b>
Fund balances (deficits) - beginning	921,639	1,743	119,603	(108,377)	934,608
Fund balances (deficits) - ending	<b>\$ 949,053</b>	<b>\$ (16,506)</b>	<b>\$ 111,593</b>	<b>\$ (61,639)</b>	<b>\$ 982,501</b>

See Accompanying Notes to the Financial Statements

**STATE OF DELAWARE****Reconciliation of the Net Changes in Fund Balances**  
**- Total Governmental Funds to Change in Net Assets  
of Governmental Activities**

(Expressed in Thousands)

**Net Changes in Fund Balances** \$ 47,893

Amounts reported for governmental activities in the statement of activities are different because:

Governmental funds report capital outlays as expenditures. However, in the statement of activities, the cost of those assets is allocated over their estimated useful lives as depreciation expense. This is the amount by which capital outlays exceeded depreciation in the current period. 248,112

Revenues in the statement of activities that do not provide current financial resources are not reported as revenues in the funds. 30,168

Bond proceeds provide current financial resources to governmental funds, but issuing debt increases long-term liabilities in the statement of net assets. Repayment of bond principal is an expenditure in the governmental funds, but the repayment reduces long-term liabilities in the statement of net assets. This is the amount by which proceeds exceeded repayments. (162,295)

Some expenses reported in the statement of activities do not require the use of current financial resources and therefore, the changes in these liabilities are not reported as expenditures in the governmental funds:

Accrued interest expense	(2,560)
Claims and judgements	(5,097)
Compensated absences	2,400
Pension obligation	(8,821)
Physician loan and scholarships	<u>(2,988)</u>

**Change in Net Assets of Governmental Activities** \$ 146,812

See Accompanying Notes to the Financial Statements

**STATE OF DELAWARE**  
**STATEMENT OF NET ASSETS**  
**PROPRIETARY FUNDS**  
**JUNE 30, 2003**  
(Expressed in Thousands)

<b>Business-Type Activities -</b> <b>Enterprise Funds</b>						
	<b>Unemployment</b>	<b>Lottery</b>	<b>DELDOT</b>	<b>Total</b>		
<b>Asset</b>						
Current Assets:						
Cash and cash equivalents	\$ 266,023	\$ 4,613	\$ 11,709	\$ 282,345		
Cash and cash equivalents - Restricted Investments			1,073	1,073		
Accounts receivable, net	7,249	2,616	290,322	292,938		
Taxes receivable, net	14,161	13,638	4,133	25,020		
Intergovernmental receivables, net			4,435	4,435		
Interest and investment revenue receivable			1,201	1,201		
Inventories			7,884	7,884		
Prepaid items		425		425		
Due from other governments	486			486		
Total current assets	<u>287,919</u>	<u>21,292</u>	<u>320,757</u>	<u>629,968</u>		
Noncurrent Assets:						
Long-term investments			65,759	65,759		
Long-term investments-restricted		12,325		12,325		
Loans and notes receivable			27,500	27,500		
Other assets		1,795		1,795		
Capital assets, net	385		3,362,433	3,362,818		
Total noncurrent assets	<u>14,505</u>	<u>3,455,692</u>	<u>3,470,197</u>			
Total Assets	<u>287,919</u>	<u>35,797</u>	<u>3,776,449</u>	<u>4,100,165</u>		
<b>Liabilities</b>						
Current Liabilities:						
Accounts payable		11,873	57,653	69,526		
Accrued liabilities	29,913		3,769	33,682		
Interest payable			17,938	17,938		
Deferred revenue			6,042	6,042		
Compensated absences			3,613	3,613		
Claims and judgements			2,117	2,117		
Prizes liability		9,327		9,327		
Escrow deposits			1,061	1,061		
Current portion of long-term debt			47,640	47,640		
Tax refunds payable	1,226				1,226	
Due to other funds		1,371			1,371	
Total Current Liabilities	<u>31,139</u>	<u>22,571</u>	<u>139,833</u>	<u>193,543</u>		
Noncurrent Liabilities:						
Compensated absences			7,991	7,991		
Claims and judgments			14,481	14,481		
Liabilities payable from restricted assets		12,325		12,325		
Long-term debt			815,505	815,505		
Bonds issue premium, net			35,624	35,624		
Total Noncurrent Liabilities	<u>0</u>	<u>12,325</u>	<u>873,601</u>	<u>885,926</u>		
Total Liabilities	<u>31,139</u>	<u>34,896</u>	<u>1,013,434</u>	<u>1,079,469</u>		
<b>Net Assets</b>						
Invested in Capital Assets, net of related debt		385	2,463,664	2,464,049		
Restricted for:						
Unemployment Benefits	256,780			256,780		
Other			12	12		
Unrestricted		516	299,339	299,855		
Total Net Assets	<u>\$ 256,780</u>	<u>\$ 901</u>	<u>\$ 2,763,015</u>	<u>\$ 3,020,696</u>		

See Accompanying Notes to the Financial Statements

**STATE OF DELAWARE**  
**STATEMENT OF REVENUES, EXPENSES AND CHANGES IN FUND NET ASSETS**  
**PROPRIETARY FUNDS**  
**FOR THE YEAR ENDED JUNE 30, 2003**  
(Expressed in thousands)

	<b>Business-Type Activities - Enterprise Funds</b>			
	<b>Unemployment</b>	<b>Lottery</b>	<b>DELDOT</b>	<b>Total</b>
<b>Operating Revenues</b>				
Unemployment taxes	\$ 53,525			\$ 53,525
Gaming revenue		\$ 628,064		628,064
Turnpike			\$ 88,079	88,079
Motor fuel tax			107,268	107,268
Motor vehicle document fee			57,704	57,704
Motor vehicle registration fee			27,832	27,832
Other motor vehicle			14,142	14,142
International Fuel Tax Agreement			3,135	3,135
Federal highway reimbursements			376	376
Property management			473	473
Passenger fares			8,714	8,714
Advertising			271	271
Auxiliary transportation			416	416
Miscellaneous			4,053	4,053
Total Operating Revenues	<u>53,525</u>	<u>628,064</u>	<u>312,463</u>	<u>994,052</u>
<b>Operating Expenses</b>				
Unemployment benefits	125,270			125,270
Cost of sales		294,719		294,719
Prizes and claims/ judgements		52,745	5,147	57,892
Transportation			417,193	417,193
Depreciation		181	16,412	16,593
General and administrative		6,195	18,829	25,024
Payment to component unit			946	946
Total Operating Expenses	<u>125,270</u>	<u>353,840</u>	<u>458,527</u>	<u>937,637</u>
Operating Income (Loss)	<u>(71,745)</u>	<u>274,224</u>	<u>(146,064)</u>	<u>56,415</u>
<b>Nonoperating Revenues (Expenses)</b>				
Interest and investment revenue	17,916		7,157	25,073
Capital grants			115,502	115,502
Interest expense			(46,882)	(46,882)
Loss on disposal of assets			(287)	(287)
Total Nonoperating Revenues (Expenses)	<u>17,916</u>		<u>75,490</u>	<u>93,406</u>
Income (Loss) Before Transfers	(53,829)	274,224	(70,574)	149,821
Transfers In			28,517	28,517
Transfers Out		(273,823)	(1,247)	(275,070)
Change in Net Assets	<u>(53,829)</u>	<u>401</u>	<u>(43,304)</u>	<u>(96,732)</u>
<b>Total Net Assets - Beginning</b>	<b>310,609</b>	<b>500</b>	<b>2,806,319</b>	<b>3,117,428</b>
<b>Total Net Assets - Ending</b>	<b><u>\$ 256,780</u></b>	<b><u>\$ 901</u></b>	<b><u>\$ 2,763,015</u></b>	<b><u>\$ 3,020,696</u></b>

See Accompanying Notes to the Financial Statements

**STATE OF DELAWARE**  
**STATEMENT OF CASH FLOWS**  
**PROPRIETARY FUNDS**  
**FOR THE YEAR ENDED JUNE 30, 2003**  
(Expressed in thousands)

	<b>Business-Type Activities- Enterprise Funds</b>			
	<b>Unemployment</b>	<b>Lottery</b>	<b>DELDOT</b>	<b>Total</b>
<b>Cash Flows from Operating Activities</b>				
Receipts from employers	\$ 51,928			\$ 51,928
Payments for insurance claims	(123,270)		\$ (2,710)	(125,980)
Receipts from customers and users		\$ 627,293		627,293
Other operating receipts			315,058	315,058
Payments to suppliers for goods and services		(38,227)	(405,061)	(443,288)
Payments to employees for services		(1,453)		(1,453)
Payments for prizes		(51,565)		(51,565)
Payment for commissions		(260,955)		(260,955)
Other receipts			2,524	2,524
Net Cash Provided (Used) by Operating Activities	<u>(71,342)</u>	<u>275,093</u>	<u>(90,189)</u>	<u>113,562</u>
<b>Cash Flows from Noncapital Financing Activities</b>				
Federal grants and other contributions			3,883	3,883
Transfers in			28,517	28,517
Transfers out			(1,247)	(276,436)
Net Cash Provided (Used) by Noncapital Financing Activities		<u>(275,189)</u>	<u>31,153</u>	<u>(244,036)</u>
<b>Cash Flows from Capital and Related Financing Activities</b>				
Proceeds from capital debt			259,402	259,402
Capital grants			116,560	116,560
Purchases of capital assets			(53,463)	(53,463)
Principal paid on capital debt			(41,490)	(41,490)
Interest paid on capital debt			(45,007)	(45,007)
Other receipts			427	427
Net Cash Provided by Capital and Related Financing Activities			<u>236,429</u>	<u>236,429</u>
<b>Cash Flows from Investing Activities</b>				
Interest and investment revenues	17,916		5,537	23,453
Purchase of Investments			(190,016)	(190,016)
Proceeds from sales and maturities of investments	2,730		7,577	10,307
Net Cash Provided (Used) by Investing Activities	<u>17,916</u>	<u>2,730</u>	<u>(176,902)</u>	<u>(156,256)</u>
<b>Net Increases (Decrease) in Cash/Cash Equivalents</b>				
<b>Cash/Cash Equivalents - Beginning of Year</b>	<u>319,449</u>	<u>1,979</u>	<u>12,291</u>	<u>333,719</u>
<b>Cash/Cash Equivalents - End of Year</b>	<u><b>\$ 266,023</b></u>	<u><b>\$ 4,613</b></u>	<u><b>\$ 12,782</b></u>	<u><b>\$ 283,418</b></u>
 <b>Reconciliation of Operating Income (Loss) to Net Cash Used by Operating Activities</b>				
Operating Income (Loss)	\$ (71,745)	\$ 274,224	\$ (146,064)	\$ 56,415
Adjustments to Reconcile Operating Income to Net Cash Provided by Operating Activities:				
Depreciation expense		181	16,412	16,593
Loss on Disposal of Equipment		98		98
Decrease (increase) in assets:				
Decrease (increase) in receivables, net	(2,317)	(771)	(890)	(3,978)
Decrease (increase) in inventories			815	815
Decrease (increase) in prepaid items		(159)	556	397
Increase (decrease) in liabilities				
Increase (decrease) in accounts and other payables	1,927	388	28,150	30,465
Increase (decrease) in accrued liabilities	499	(56)	4,762	5,205
Increase (decrease) in accrued expenses		1,188	4,966	6,154
Increase (decrease) in accrued payroll and related expenses			1,104	1,104
Increase (decrease) in due to/from other governments	294			294
Net Cash Provided (Used) by Operating Activities	<u><b>\$ (71,342)</b></u>	<u><b>\$ 275,093</b></u>	<u><b>\$ (90,189)</b></u>	<u><b>\$ 113,562</b></u>

See Accompanying Notes to the Financial Statements

**STATE OF DELAWARE**  
**STATEMENT OF FIDUCIARY NET ASSETS**  
**FIDUCIARY FUNDS**  
**JUNE 30, 2003**  
(Expressed in thousands)

	<b>Pension Trust Funds</b>	<b>Investment Trust Funds</b>	<b>Agency Funds</b>
<b>Assets</b>			
Cash and cash equivalents	\$ 473		\$ 25,893
Receivables:			
Employer contributions	3,395		
Member contributions	1,826		
Other receivables			20,383
Investments, at fair value:			
Domestic fixed income	929,212	\$ 2,023	
Domestic equities	1,192,615	2,596	
Pooled equity & fixed income	1,704,971	3,711	
Managed futures	103,238	224	
Private investments	455,375	991	
Short term investments	122,940	250	8,847
Foreign equities	361,706	787	
Total Assets	<u>4,875,751</u>	<u>10,582</u>	<u>55,123</u>
<b>Liabilities</b>			
Accounts payable	4,630		55,123
Benefits payable	734		
Accrued expenses	253		
Total Liabilities	<u>5,617</u>		<u>\$ 55,123</u>
<b>Net Assets</b>			
Assets held in trust for pension benefits and pool participants	<u>\$ 4,870,134</u>	<u>\$ 10,582</u>	

See Accompanying Notes to the Financial Statements

**STATE OF DELAWARE**  
**STATEMENT OF CHANGES IN FIDUCIARY NET ASSETS**  
**FIDUCIARY FUNDS**  
**FOR THE YEAR ENDED JUNE 30, 2003**  
(Expressed in thousands)

	<b>Pension Trust Funds</b>	<b>Investment Trust Funds</b>
<b>Additions</b>		
Contributions:		
Employer contributions	\$ 89,140	
Transfer of assets from outside the system	2,829	\$ 783
Member contributions	40,280	
Other	10	
Total contributions	<u>132,259</u>	<u>783</u>
Investments:		
Investment earnings	121,382	264
Net increase in fair value of investments	41,586	153
Total investment earnings	<u>162,968</u>	<u>417</u>
Less investment manager/advisor/custody fees	(13,524)	(30)
Less investment administrative expenses	(223)	
Net investment earnings	<u>149,221</u>	<u>387</u>
Total additions	<u>281,480</u>	<u>1,170</u>
<b>Deductions</b>		
Transfer of assets outside the system	7,399	
Pension payments	239,859	
Refunds of contributions to members	2,973	
Group life payments	4,172	
Administrative expenses	5,227	
Total Deductions	<u>259,630</u>	
<b>Change in Net Assets</b>	<u>21,850</u>	<u>1,170</u>
<b>Net Assets - Beginning of Year</b>	<u>4,848,284</u>	<u>9,412</u>
<b>Net Assets - End of Year</b>	<u>\$ 4,870,134</u>	<u>\$ 10,582</u>

See Accompanying Notes to the Financial Statements

STATE OF DELAWARE  
 COMBINING STATEMENT OF FIDUCIARY NET ASSETS  
 DELAWARE PUBLIC EMPLOYEES' RETIREMENT SYSTEM  
 JUNE 30, 2003  
 (Expressed in Thousands)

	State Employees' Pension Plan	Special Pensions Plan	New State Police Plan	Judiciary Pension Plan	Volunteer Firemen's Pension Plan
<b>Assets:</b>					
Cash	\$ 439		\$ 2	\$ 6	\$ 4
Receivables:					
Employer Contributions	2,219		124	48	
Member Contributions	1,629		89	8	
Total Receivables	<u>3,848</u>		<u>213</u>	<u>56</u>	
Investments at Fair Value:					
Domestic Fixed Income	887,579	\$ 169	20,665	5,347	1,673
Domestic Equities	1,139,181	217	26,523	6,862	2,147
Pooled Equity and Fixed Income	1,628,580	311	37,918	9,810	3,069
Managed Futures	98,612	19	2,296	594	186
Private Investments	434,972	83	10,127	2,620	820
Short Term and Money Markets	111,723	28	2,829	657	197
Foreign Equities	345,500	66	8,044	2,082	651
Total Investments	<u>4,646,147</u>	<u>893</u>	<u>108,402</u>	<u>27,972</u>	<u>8,743</u>
<b>Total Assets</b>	<u>\$ 4,650,434</u>	<u>\$ 893</u>	<u>\$ 108,617</u>	<u>\$ 28,034</u>	<u>\$ 8,747</u>
<b>Liabilities</b>					
Transfer of assets outside the system					
Benefits payable	\$ 685		\$ 3		\$ 2
Accrued administrative expenses	241		3	1	
<b>Total Liabilities</b>	<u>926</u>		<u>6</u>	<u>1</u>	<u>2</u>
<b>Assets Held in Trust for Pension Benefits</b>	<u>\$ 4,649,508</u>	<u>\$ 893</u>	<u>\$ 108,611</u>	<u>\$ 28,033</u>	<u>\$ 8,745</u>

See Accompanying Notes to the Financial Statements

Diamond State Port Corporation Fund	County and Municipal Police and Firemen's Plan	County and Municipal Police and Firemen's Cola Fund	County and Municipal Other Plans	DPERS Post Retirement Increase Fund	SEPP Post Retirement Health Care Premium Fund	Closed State Police Plan	Totals
\$ 1	\$ 7		\$ 2	\$ 6		\$ 6	\$ 473
25	148		14	802	\$ 15		3,395
13	74		11			2	1,826
<u>38</u>	<u>222</u>		<u>25</u>	<u>802</u>	<u>15</u>	<u>2</u>	<u>5,221</u>
1,233	6,951	\$ 962	612	1,494	2,527		929,212
1,582	8,922	1,234	786	1,917	3,244		1,192,615
2,262	12,755	1,765	1,124	2,740	4,637		1,704,971
137	772	107	68	166	281		103,238
604	3,407	471	300	732	1,239		455,375
175	1,405	2,344	90	427	696	2,369	122,940
480	2,706	374	238	581	984		361,706
<u>6,473</u>	<u>36,918</u>	<u>7,257</u>	<u>3,218</u>	<u>8,057</u>	<u>13,608</u>	<u>2,369</u>	<u>4,870,057</u>
<u>\$ 6,512</u>	<u>\$ 37,147</u>	<u>\$ 7,257</u>	<u>\$ 3,245</u>	<u>\$ 8,865</u>	<u>\$ 13,623</u>	<u>\$ 2,377</u>	<u>\$ 4,875,751</u>
	\$ 42	\$ 895		\$ 3,735		\$ 4,630	
\$ 1	\$ 3		\$ 2			\$ 734	
<u>1</u>	<u>45</u>	<u>895</u>	<u>1</u>	<u>3,735</u>	<u>3</u>	<u>253</u>	
<u>\$ 6,511</u>	<u>\$ 37,102</u>	<u>\$ 6,362</u>	<u>\$ 3,242</u>	<u>\$ 8,865</u>	<u>\$ 9,888</u>	<u>\$ 2,374</u>	<u>\$ 4,870,134</u>

See Accompanying Notes to the Financial Statements

**STATE OF DELAWARE**  
**COMBINING STATEMENT OF CHANGES IN FIDUCIARY NET ASSETS**  
**DELAWARE PUBLIC EMPLOYEES' RETIREMENT SYSTEM**  
**FOR THE YEAR ENDED JUNE 30, 2003**  
(Expressed in Thousands)

	<b>State Employees' Pension Plan</b>	<b>Special Pensions Plan</b>	<b>New State Police Plan</b>	<b>Judiciary Pension Plan</b>	<b>Volunteer Firemen's Pension Plan</b>
<b>Additions</b>					
Contributions:					
Employer Contributions	\$ 40,175		\$ 2,786	\$ 1,342	\$ 667
Transfer of Assets from Outside the System					
Member Contributions	35,130		2,337	563	210
Other		10			
<b>Total Contributions:</b>	<b>75,305</b>		<b>5,133</b>	<b>1,905</b>	<b>877</b>
Investments:					
Investment Income	115,884	\$ 22	2,698	698	218
Net increase (decrease) in fair value	39,077	18	1,278	302	102
Total Investment Income:	154,961	40	3,976	1,000	320
Less Investment Manager/Advisor/Custody Fees	(12,918)	(3)	(301)	(77)	(24)
Less Investment Administrative Expenses	(213)		(5)	(1)	(1)
Net Investment Income:	141,830	37	3,670	922	295
<b>Total Additions</b>	<b>217,135</b>	<b>37</b>	<b>8,803</b>	<b>2,827</b>	<b>1,172</b>
<b>Deductions:</b>					
Transfer of Assets Outside the System		750			
Pension Payments	217,126	121	689	1,971	1,057
Refunds of Contributions to Members	2,653		102		48
Group Life Payments	4,060	35			
Administrative expenses	5,227				
Allocation of Administrative expenses	(273)	3	62	10	18
<b>Total Deductions</b>	<b>228,793</b>	<b>909</b>	<b>853</b>	<b>1,981</b>	<b>1,123</b>
<b>Change in Net Assets</b>	<b>(11,658)</b>	<b>(872)</b>	<b>7,950</b>	<b>846</b>	<b>49</b>
<b>Net Assets Held in Trust for Pension Benefits</b>					
Balance - Beginning of Year	4,635,288	1,765	100,631	26,943	8,696
Balance - End of Year	<b>\$ 4,623,630</b>	<b>\$ 893</b>	<b>\$ 108,581</b>	<b>\$ 27,789</b>	<b>\$ 8,745</b>

See Accompanying Notes to the Financial Statements

Diamond State Port Corporation Fund	County and Municipal Police and Firemen's Plan	County and Municipal Police and Firemen's Cola Fund	County and Municipal Other Plans	DPERS Post Retirement Increase Fund	SEPP Post Retirement Health Care Premium Fund	Closed State Police Plan	Totals
\$ 333	\$ 2,931		\$ 248	\$ 18,124	\$ 4,689	\$ 17,845	\$ 89,140
170	1,546	\$ 2,072	259			757	-
503	<u>4,477</u>	<u>2,072</u>	<u>507</u>	<u>18,124</u>	<u>4,689</u>	<u>18,667</u>	<u>129,430</u>
161	908	125	80	195	330	63	121,382
73	<u>567</u>	<u>65</u>	<u>48</u>	<u>(290)</u>	<u>346</u>		<u>41,586</u>
234	1,475	190	128	(95)	676	63	162,968
(18)	(101)	(14)	(9)	(22)	(37)		(13,524)
216	<u>(2)</u>				<u>(1)</u>		<u>(223)</u>
216	<u>1,372</u>	<u>176</u>	<u>119</u>	<u>(117)</u>	<u>638</u>	<u>63</u>	<u>149,221</u>
719	5,849	2,248	626	18,007	5,327	18,730	278,651
170	244	2,914	52		3,735		7,399
24	<u>105</u>		<u>41</u>				<u>239,859</u>
28	67		26			59	
222	416	2,914	119	-	3,735	18,565	259,630
497	<u>5,433</u>	<u>(666)</u>	<u>507</u>	<u>18,007</u>	<u>1,592</u>	<u>165</u>	<u>19,021</u>
6,014	<u>31,669</u>	<u>7,028</u>	<u>2,735</u>	<u>17,010</u>	<u>8,296</u>	<u>2,209</u>	<u>4,848,284</u>
<u>\$ 6,511</u>	<u>\$ 37,102</u>	<u>\$ 6,362</u>	<u>\$ 3,242</u>	<u>\$ 35,017</u>	<u>\$ 9,888</u>	<u>\$ 2,374</u>	<u>\$ 4,867,305</u>

See Accompanying Notes to the Financial Statements

**STATE OF DELAWARE**  
**COMBINING STATEMENT OF CHANGES IN ASSETS AND LIABILITIES**  
**ALL AGENCY FUNDS**  
**FOR THE YEAR ENDED JUNE 30, 2003**  
(Expressed in Thousands)

<b>Child Support Collection:</b>	<u>Balance</u> <u>July 1, 2002</u>	<u>Additions</u>	<u>Deductions</u>	<u>Balance</u> <u>July 1, 2003</u>
<b>Assets</b>				
Cash and cash equivalents	\$ 5,349	\$ 263,220	\$ 266,686	\$ 1,883
Investments	1,961	2,017	2,980	998
Receivables, net	2,822	48,840	51,597	65
Total Assets	<u>\$ 10,132</u>	<u>\$ 314,077</u>	<u>\$ 321,263</u>	<u>\$ 2,946</u>
<b>Liabilities</b>				
Accounts payable	\$ 10,132	\$ 314,077	\$ 321,263	\$ 2,946
Total Liabilities	<u>\$ 10,132</u>	<u>\$ 314,077</u>	<u>\$ 321,263</u>	<u>\$ 2,946</u>
 <b>Court Fines and Restitution:</b>	 <u>Balance</u> <u>July 1, 2002</u>	 <u>Additions</u>	 <u>Deductions</u>	 <u>Balance</u> <u>July 1, 2003</u>
<b>Assets</b>				
Cash and cash equivalents	\$ 8,021	\$ 21,025	\$ 15,169	\$ 13,877
Investments	582	5,120	5,104	598
Receivables, net	15,527	4,250	4,004	15,773
Total Assets	<u>\$ 24,130</u>	<u>\$ 30,395</u>	<u>\$ 24,277</u>	<u>\$ 30,248</u>
<b>Liabilities</b>				
Accounts payable	\$ 24,130	\$ 30,395	\$ 24,277	\$ 30,248
Total Liabilities	<u>\$ 24,130</u>	<u>\$ 30,395</u>	<u>\$ 24,277</u>	<u>\$ 30,248</u>
 <b>All Other Agency Funds</b>	 <u>Balance</u> <u>July 1, 2002</u>	 <u>Additions</u>	 <u>Deductions</u>	 <u>Balance</u> <u>July 1, 2003</u>
<b>Assets</b>				
Cash and cash equivalents	\$ 7,524	\$ 22,572	\$ 19,963	\$ 10,133
Investments	12,830	32,075	37,654	7,251
Receivables, net	3,286	7,493	6,234	4,545
Total Assets	<u>\$ 23,640</u>	<u>\$ 62,140</u>	<u>\$ 63,851</u>	<u>\$ 21,929</u>
<b>Liabilities</b>				
Accounts payable	\$ 23,640	\$ 62,140	\$ 63,851	\$ 21,929
Total Liabilities	<u>\$ 23,640</u>	<u>\$ 62,140</u>	<u>\$ 63,851</u>	<u>\$ 21,929</u>
 <b>Totals - All Agency Funds</b>	 <u>Balance</u> <u>July 1, 2002</u>	 <u>Additions</u>	 <u>Deductions</u>	 <u>Balance</u> <u>July 1, 2003</u>
<b>Assets</b>				
Cash and cash equivalents	\$ 20,894	\$ 306,817	\$ 301,818	\$ 25,893
Investments	15,373	39,212	45,738	8,847
Receivables, net	21,635	60,583	61,835	20,383
Total Assets	<u>\$ 57,902</u>	<u>\$ 406,612</u>	<u>\$ 409,391</u>	<u>\$ 55,123</u>
<b>Liabilities</b>				
Accounts payable	\$ 57,902	\$ 406,612	\$ 409,391	\$ 55,123
Total Liabilities	<u>\$ 57,902</u>	<u>\$ 406,612</u>	<u>\$ 409,391</u>	<u>\$ 55,123</u>

See Accompanying Notes to the Financial Statements

STATE OF DELAWARE  
 COMBINING STATEMENT OF NET ASSETS  
 MAJOR COMPONENT UNITS  
 JUNE 30, 2003  
 (Expressed in Thousands)

	Delaware State Housing Authority	Diamond State Port Corporation	Riverfront Development Corporation	Delaware State University	Delaware Charter Schools	All Component Units Total
<b>ASSETS</b>						
<b>Current Assets:</b>						
Cash and cash equivalents	\$ 1,147	\$ 1,182	\$ 94	\$ 11,555	\$ 8,242	\$ 22,220
Investments - restricted	52,053					52,053
Investments		2,889				2,889
Accounts and other receivables, net	80,004	2,965	175	13,098	1,474	97,716
Inventories		510	27			537
Deferred bond issuance costs	443					443
Prepaid items	2,506	672	63		1	3,242
Other current assets				1,091	61	1,152
<b>Total current assets</b>	<b>136,153</b>	<b>8,218</b>	<b>359</b>	<b>25,744</b>	<b>9,778</b>	<b>180,252</b>
<b>Noncurrent Assets:</b>						
Cash and cash equivalents - restricted		222	97			319
Long-term investments	91,757			1		91,758
Accrued interest receivable	2,279					2,279
Long-term investments - restricted				13,077		13,077
Loans and notes receivable, net	384,853		1,444	510		386,807
Capital assets, net	21,323	153,328	64,006	120,845	28,147	387,649
Deferred bond issuance costs	5,193			242		5,435
Other noncurrent assets			4,765	198	622	5,585
<b>Total noncurrent assets</b>	<b>505,405</b>	<b>153,550</b>	<b>70,312</b>	<b>134,873</b>	<b>28,769</b>	<b>892,909</b>
<b>Total assets</b>	<b>641,558</b>	<b>161,768</b>	<b>70,671</b>	<b>160,617</b>	<b>38,547</b>	<b>1,073,161</b>
<b>LIABILITIES</b>						
<b>Current liabilities:</b>						
Accounts payable	4,085	1,237	908	4,417	2,968	13,615
Accrued liabilities	226	1,493	312	4,561	3,210	9,802
Deferred revenue	181	142	73		94	490
Capital leases			28			28
Compensated absences	16					16
Escrow deposits			207			207
Current portion of long-term debt			9,076	160	1,436	10,672
Notes payable	216	4,416	1,000	67		5,699
Revenue bonds	11,240		180	870		12,290
<b>Total current liabilities</b>	<b>15,964</b>	<b>7,316</b>	<b>11,756</b>	<b>10,075</b>	<b>7,708</b>	<b>52,819</b>
<b>Noncurrent liabilities:</b>						
Compensated absences	768				222	990
Escrow deposits	30,364					30,364
Notes payable	1,851	51,285		533		53,669
Revenue bonds	368,365		5,185	12,202		385,752
Long-term debt			2,163	231	21,093	23,487
Other noncurrent liabilities	858	64				922
<b>Total noncurrent liabilities</b>	<b>402,206</b>	<b>51,349</b>	<b>7,348</b>	<b>12,966</b>	<b>21,315</b>	<b>495,184</b>
<b>Total liabilities</b>	<b>418,170</b>	<b>58,665</b>	<b>19,104</b>	<b>23,041</b>	<b>29,023</b>	<b>548,003</b>
<b>NET ASSETS</b>						
Invested in capital assets, net of related debt	20,968	100,645	43,561	106,180	6,457	277,811
Restricted	183,654	1		26,390	353	210,398
Unrestricted	18,766	2,457	8,006	5,006	2,714	36,949
<b>Total net assets</b>	<b>\$ 223,388</b>	<b>\$ 103,103</b>	<b>\$ 51,567</b>	<b>\$ 137,576</b>	<b>\$ 9,524</b>	<b>\$ 525,158</b>

See Accompanying Notes to Financial Statements

**STATE OF DELAWARE**  
**COMBINING STATEMENT OF ACTIVITIES**  
**MAJOR COMPONENT UNITS**  
**FOR THE YEAR ENDED JUNE 30, 2003**  
(Expressed in Thousands)

	<b>Program Revenues</b>			
	<b>Expenses</b>			
		<b>Charges for Services</b>	<b>Operating Grants and Contributions</b>	<b>Capital Grants and Contributions</b>
<b>Component Units:</b>				
Delaware State Housing Authority	\$ 81,575	\$ 31,411	\$ 41,424	\$ 923
Diamond State Port Corporation	29,000	26,829		190
Riverfront Development Corporation	8,467	2,922	1,878	
Delaware State University	63,689	19,776	12,707	633
Delaware Charter Schools	37,677	365	870	796
<b>Total component units</b>	<b>\$ 220,408</b>	<b>\$ 81,303</b>	<b>\$ 56,879</b>	<b>\$ 2,542</b>

**General Revenues**

Payments from primary governments  
Investment earnings (loss)  
Gain (Loss) on sale of assets  
Miscellaneous

Total General Revenues  
Change in Net Assets

**Net Assets - Beginning of Year**

**Net Assets - End of Year**

See Accompanying Notes to the Financial Statements

**Net (Expense) Revenue and  
Changes in Net Assets**

<b>Delaware State Housing Authority</b>	<b>Diamond State Port Corporation</b>	<b>Riverfront Development Corporation</b>	<b>Delaware State University</b>	<b>Delaware Charter Schools</b>	<b>Totals</b>
\$ (7,817)	\$ (1,981)	\$ (3,667)	\$ (30,573)	\$ (35,646)	\$ (79,684)
3,406	357	3,467	32,792	36,058	75,723
8,668		(78)	498	214	9,659
		(140)			(140)
				205	205
12,074	357	3,249	33,290	36,477	85,447
4,257	(1,624)	(418)	2,717	831	5,763
219,131	104,727	51,985	134,859	8,693	519,395
\$ 223,388	\$ 103,103	\$ 51,567	\$ 137,576	\$ 9,524	\$ 525,158

See Accompanying Notes to the Financial Statements

**NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

The accompanying financial statements of the State of Delaware (the State) have been prepared in conformity with Accounting Principles Generally Accepted in the United States (GAAP) as prescribed by the Governmental Accounting Standards Board (GASB).

**(a) Reporting Entity**

The accompanying financial statements present the State's primary government and include all funds, elected officials, departments and agencies, bureaus, boards, commissions, and authorities that make up the State's legal entity. The State's nineteen local school districts, which are not legally separate, are included in the reporting entity of the primary government. The DELDOT enterprise fund, which includes the Transportation Trust Fund and the Delaware Transit Corporation, is also included in the reporting entity of the primary government. The State's reporting entity is also comprised of its component units, entities for which the State is considered to be financially accountable. Blended component units, although legally separate entities, are in substance part of the State's operations. Each discretely presented component unit is reported in a separate column in the government-wide financial statements (see note below for description) to emphasize that it is legally separate from the State.

Financial accountability is defined in GASB Statement No.14, "The Financial Reporting Entity." The State is financially accountable for legally separate organizations if it appoints a voting majority of the organization's board and (1) it is able to impose its will on that organization or (2) there is a potential for the organization to provide specific financial benefits to, or impose specific financial burdens on, the State. The State may also be financially accountable if an organization is fiscally dependent on the State regardless of whether the organization has a separately elected governing board, a governing board appointed by a higher level of government, or a jointly appointed board.

**Blended Component Unit**

The Delaware Public Employees' Retirement System (DPERS) is a public employee retirement system, which covers substantially all State employees. The DPERS is a legally separate entity, however, as it provides services and benefits almost exclusively to the primary government, the DPERS is considered a blended component unit and is shown in the financial statements as part of the primary government as pension trust funds. The DPERS is audited by other auditors and their report dated August 15, 2003 is publicly available. The financial report of DPERS for the year ended June 30, 2003 may be obtained by writing to the State Board of Pension Trustees and Office of the Pensions, McArdle Building, Suite #1, 860 Silver Lake Boulevard, Dover, DE 19904-2402.

**Discretely Presented Component Units**

The following component units are entities that are legally separate from the State, but are financially accountable to the State for reporting purposes, or whose relationship with the State is such that exclusion would cause the State's financial statements to be misleading or incomplete. The component units column of the basic financial statements includes the financial data of these entities. Each discretely presented component unit has a June 30 year end.

**Delaware State Housing Authority**

The Delaware State Housing Authority (DSHA) is a public corporation whose Director is appointed by and reports directly to the Governor of the State. The Authority administers the role of affordable housing as a key aspect of State policy. The Authority's relationship with the State is such that exclusion of the Authority from the State's basic financial statements would cause the statements to be misleading or incomplete. The Authority is authorized, among other things, to (1) make mortgage, construction and other loans to not-for-profit and limited for-profit housing sponsors, (2) make loans to mortgage lenders, requiring the proceeds thereof to be used for making newly qualified residential mortgage loans, (3) purchase qualified mortgage loans from mortgage lenders, and (4) apply for and receive assistance and subsidies under programs from the Federal Government and others. The Authority was audited by other independent auditors, and their report dated October 16, 2003 has been issued under separate cover.

**Diamond State Port Corporation**

The Diamond State Port Corporation (DSPC) was organized as a body corporate and politic constituting a public instrumentality of the State. The DSPC is empowered to operate, improve and maintain the Port of Wilmington and related facilities. The Governor appoints six of the nine members of the board of directors with the advice and consent of the Senate. The DSPC's relationship with the State is such that exclusion of the DSPC from the State's general purpose financial statements would cause the statements to be misleading or incomplete. The Corporation was audited by other independent auditors and their report dated August 7, 2003 has been issued under separate cover.

**Riverfront Development Corporation**

The Riverfront Development Corporation (RDC) was formed to plan, develop and manage programs and projects intended to foster economic development along the Brandywine and Christina Rivers. The Governor appoints six of the 13 board members; however, five of the remaining seven directors consist of the Governor and four State officials. Authorization by the State's Budget Director and Controller

General is required before funds of the RDC may be expended. The RDC was audited by other independent auditors, and their report dated August 12, 2003 has been issued under separate cover.

### **Delaware State University**

Delaware State University (DSU) is a public institution of higher education funded primarily through State appropriations. Additional funding is derived from tuition, federal grants and private donations and grants. The Board of Trustees is comprised of 11 members, six appointed by the Governor of Delaware and five elected by the Trustees. The President of the University and the Governor of the State of Delaware serve as ex-officio members of the Board. Other independent auditors audited the University, and their report dated October 27, 2003 has been issued under separate cover.

### **Delaware Charter Schools**

Delaware Charter Schools are public schools funded primarily through State appropriations. Additional funding is derived from federal grants passed through from the primary government and private donations. Charter schools are each managed by a board of directors, which operate independently, under a charter granted by the State Department of Education with the approval of the State Board of Education. Charters are granted for an initial period of three years and renewable every five years thereafter. Financial information for Delaware Charter Schools is presented in the aggregate as they are individually immaterial.

Complete financial statements for each of the discretely presented component units may be obtained from their respective administrative offices or from the Office of the Auditor of Accounts, The Townsend Building, Suite #1, 401 Federal Street, Dover, DE 19901.

### **Related Organizations**

Officials of the State's primary government appoint a voting majority of the governing board of the Delaware Solid Waste Authority. The primary government's accountability for the Authority does not extend beyond making the appointments. The financial activities of the Authority are not included in the State's financial statements.

### **Jointly Governed Organization**

The Delaware River and Bay Authority, a body politic, was created with the intention of advancing the economic growth and development of those areas in the State of Delaware and the State of New Jersey, which border the Delaware River and Delaware Bay. The Authority is governed by twelve (12) commissioners: six appointed by the State of Delaware and six appointed by the State of New Jersey.

The Authority is autonomous from a day-to-day operations perspective and neither State is obligated for the Authority's debt. The Authority is not included in these financial statements as the State of Delaware has no ongoing financial interest.

### **Government-Wide and Fund Financial Statements**

The government-wide financial statements (i.e., the statement of net assets and the statement of activities) report information on all of the nonfiduciary activities of State and its component units. For the most part, the effect of interfund activity has been removed from these statements. Governmental activities, which normally are supported by taxes and intergovernmental revenues, are reported separately from business-type activities, which rely to a significant extent on fees and charges for support. Likewise, the State is reported separately from certain legally separate component units for which the State is financially accountable.

The statement of activities demonstrates the degree to which the direct expenses of a given function or segment are offset by program revenues. Direct expenses are those that are clearly identifiable with a specific function or segment. Program revenues include 1) charges to customers or applicants who purchase, use, or directly benefit from goods, services, or privileges provided by a given function or segment and 2) grants and contributions that are restricted to meeting the operational or capital requirements of a particular function or segment. Taxes and other items not properly included among program revenues are reported as general revenues.

Separate fund financial statements are provided for governmental funds, proprietary funds, and fiduciary funds, even though the latter are excluded from the government-wide financial statements. Major individual governmental funds and major individual proprietary funds are reported in separate columns in the fund financial statements.

#### **(b) Measurement Focus, Basis of Accounting, and Financial Statement Presentation**

The government-wide financial statements are reported using the economic resources measurement focus and the accrual basis of accounting, as are the proprietary fund and fiduciary fund financial statements. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Taxes are recognized as revenues in the year for which they are levied. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met.

Private-sector standards of accounting and financial reporting issued prior to December 1, 1989, generally are followed in both the government-wide and proprietary fund financial statements to the extent that those standards do not conflict with or contradict guidance of the Governmental Accounting Standards

Board. Governments also have the option of following subsequent private-sector guidance for their business-type activities and enterprise funds, subject to this same limitation. The State has elected not to follow subsequent private-sector guidance.

As a general rule the effect of interfund activity has been eliminated from the government-wide financial statements. Exceptions to this general rule are charges between the State's enterprise operations and various other functions of the government. Elimination of these charges would distort the direct costs and program revenues reported for the various functions concerned.

Amounts reported as program revenues include 1) charges to customers or applicants for goods, services, or privileges provided, 2) operating grants and contributions, and 3) capital grants and contributions, including special assessments. Internally dedicated resources are reported as general revenues rather than as program revenues. Likewise, general revenues include all taxes.

Governmental fund financial statements are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Revenues are recognized as soon as they are both measurable and available. Revenues are considered to be available when they are collectible within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the government considers all revenues to be available if they are collected within 60 days of the end of the current fiscal period. Expenditures generally are recorded when a liability is incurred, as under accrual accounting. However, debt service expenditures, as well as expenditures related to compensated absences and claims and judgments, are recorded only when payment is due.

Taxes, grants, fees, sales, rents, and interest income associated with the current fiscal period are all considered to be susceptible to accrual and have been recognized as revenues of the current fiscal period. All other revenue items are considered to be measurable and available only when cash is received by the State. Revenue related to expenditure driven grants is recognized when the qualifying expenditures have been incurred and all other grant requirements have been met.

### **Governmental Funds**

The State reports the following major governmental funds:

*General Fund* - The general fund is the State's primary operating fund. It accounts for all financial resources obtained and used for those services traditionally provided by a state government, which are not required to be accounted for in other funds. These services include, among others, education, and health and social services.

*Federal Fund* - The federal fund accounts for all activities relating to the State's federal grant programs.

*Local School District Fund* - The local school district fund accounts for activities relating to the State's local school districts funded by locally raised real estate taxes and other revenue.

*Capital Projects Fund* - Transactions related to resources obtained and used for the acquisition or construction of major capital facilities (other than those financed by proprietary and fiduciary funds) are accounted for in the Capital Projects Fund. Such resources are derived principally from proceeds of general obligation bond issues, federal grants, and operating transfers from the General Fund.

### **Proprietary Funds**

Proprietary Funds are used to account for those activities which are financed and operated in a manner similar to private business enterprises. The costs of providing services to the general public on a continuing basis are financed by or recovered primarily through user charges.

Proprietary funds distinguish operating revenues and expenses from nonoperating items. Operating revenues and expenses generally result from providing services and producing and delivering goods in connection with a proprietary fund's principal ongoing operations. The principal operating revenues of the unemployment fund, lottery fund and DelDOT fund are charges to customers for sales and services.

The Lottery recognizes revenue from on-line games the day of the drawing. Revenue from the sale of instant tickets is recognized when the book has been activated and 85% of the related prizes of an activated book is paid. Revenue from video lottery sales is recognized, net of prizes paid, at the time the public plays the game.

Operating expenses for enterprise funds include the cost of sales and services, administrative expenses, and depreciation on capital assets. All revenues and expenses not meeting this definition are reported as nonoperating revenues and expenses.

The State reports the following major proprietary funds:

*DelDOT Fund* - The DelDOT fund accounts for the activities relating to the operation of the State's Department of Transportation, including the Delaware Transportation Authority.

*Unemployment Fund* - The unemployment fund accounts for the activities relating to the State's unemployment insurance program.

*Lottery Fund* - The lottery fund accounts for the activities relating to the State Lottery program.

**Fiduciary Funds**

The accounts of the pension and investment trust funds are reported using the flow of economic resources measurement focus and are maintained on the accrual basis of accounting. For pension trust funds, employee contributions are recognized as revenue in the period in which the employee services are performed. Employer contributions are recognized when due and the employer has made a formal commitment to provide the contributions. Benefits and refunds are recognized when due and payable in accordance with the terms of each plan. Agency funds are custodial in nature and do not present results of operations and therefore do not have a measurement focus.

The State reports the following fiduciary funds:

*Agency Funds* - Agency funds are custodial in nature and do not involve measurement of the results of operations. They account for the receipt of various taxes, deposits, deductions, and certain property collected by the State, acting in the capacity of an agent, and for the distribution to other governmental units or designated beneficiaries.

*Pension Trust Funds* - Pension trust funds account for transactions, assets, liabilities and net assets available for plan benefits of the Delaware Public Employees' Retirement System (DPERS) (Note 14)

*Investment Trust Funds* - Investment trust funds are used to account for external investment pools where a government commingles the moneys of more than one legally separate entity and invests, on the participants' behalf, in an investment portfolio; one or more of the participants is not part of the sponsor's reporting entity. The investment trust fund accounts for the transactions, assets, liabilities and fund equity for the Delaware Public Employee Retirement System's external investment pool.

**(c) Audit Responsibility**

For the year ended June 30, 2003, financial statements of certain separately administered organizations, agencies of the State and component units, included in the reporting entity of the State have been audited by auditors other than KPMG LLP or the Office of the Auditor of Accounts. These entities include the Delaware Public Employees Retirement System, the Investment Trust Fund, Delaware State University, Delaware State Housing Authority, the Riverfront Development Corporation, the Diamond State Port Corporation, the Delaware Charter Schools, the Delaware State Lottery and the DelDOT Fund (consists of the Delaware Department of Transportation, Delaware Transportation Authority, the Transportation Trust Fund and the Delaware Transit Corporation).

The table below sets forth the proportion (%) of certain key financial information that was subject to audit by other auditors for the year ended June 30, 2003.

	Assets		Liabilities		Revenue		Expense	
Government-Wide Financial Statements								
Business Type Activities	93	%	97	%	95	%	87	%
Component Units	100	%	100	%	100	%	100	%
Fund Financial Statements								
Lottery	100	%	100	%	100	%	100	%
DelDOT Fund	100	%	100	%	100	%	100	%
Pension Trust Fund	100	%	100	%	100	%	100	%
Investment Trust Fund	100	%	100	%	100	%	100	%

#### (d) Assets, Liabilities, and Net Assets or Equity

##### ***Deposits and investments***

All highly liquid investments with a maturity of three months or less when purchased are considered to be cash equivalents. For the purposes of the statement of cash flows, restricted cash is considered to be cash equivalents. Investment securities with maturities of greater than one year are reported as long-term investments.

Investment securities are stated at quoted market prices, except that investment securities with a remaining maturity at time of purchase of one year or less are stated at cost or amortized cost (Note 2). Investment securities with remaining maturities of greater than one year are identified as long-term investments.

##### **Receivables and Payables**

Activity between funds that are representative of lending/borrowing arrangements outstanding at the end of the fiscal year are referred to as "due to/from other funds" (i.e., the current portion of interfund loans). All trade and property tax receivables, including those for the component units, are shown net of an allowance for uncollectibles and refunds. (Note 3)

##### **Inventories and Prepaid Items**

All inventories are valued at cost using the first-in/first-out (FIFO) method. Inventories of governmental funds are recorded as expenditures when consumed rather than when purchased. Certain payments to vendors reflect costs applicable to future accounting periods and are recorded as prepaid items in both government-wide and fund financial statements.

**Restricted Assets**

The Delaware State Lottery's mandatory deposit with the Multi-State Lottery and the annuities for future installment prize payments are recorded as restricted assets, as are any assets of the Delaware State University, the Diamond State Port Corporation and the Riverfront Development Corporation that are subject to external restrictions.

**Capital Assets**

Capital assets, which include property, plant, equipment, and infrastructure assets (which are normally immovable and of value only to the State, such as roads, bridges, sidewalks, and similar items), are reported in the applicable governmental or business-type activities columns in the government-wide financial statements, the proprietary funds and component units.

Capital assets are defined by the State as assets with an initial, individual cost of more than \$15,000 at the date of acquisition and an estimated useful life in excess of one year. Such assets are recorded at historical cost if purchased or constructed, or estimated historical cost if the original cost is not determinable. Donated capital assets are recorded at estimated fair market value at the date of donation.

All land and buildings are capitalized, regardless of cost. Equipment and vehicles are capitalized when the cost of individual items exceeds \$15,000. Building and land improvements are capitalized when the cost of the project exceeds \$100,000. Infrastructure and software is capitalized when the costs of individual items or projects exceed \$1 million.

The State possesses certain capital assets that have not been capitalized and depreciated, because the assets cannot be reasonably valued and/or the assets have inexhaustible useful lives. These assets include works of art and historical treasures, such as statues, monuments, historical documents, paintings, forts, miscellaneous capitol-related artifacts and furnishings. These assets are held for public exhibition, education or research in furtherance of public service rather than financial gain; they are protected, kept unencumbered, cared for and preserved; and they are subject to an organizational policy that requires the proceeds from sales of collection items to be used to acquire other items for collections.

The costs of normal maintenance and repairs that do not add to the value of the asset or materially extend assets lives are not capitalized.

Major outlays for capital assets and improvements are capitalized as projects are constructed. Interest incurred during the construction phase of capital assets of business-type activities is included as part of the capitalized value of the assets constructed. Property, plant, and equipment of the primary government is depreciated using the straight line method over the following estimated useful lives:

<u>Asset</u>	<u>Primary Government Years</u>	<u>Component Units Years</u>
Buildings and Building Improvements	40	15 - 75
Land Improvements	20	N/A
Furniture and Equipment	3 - 10	3 - 40
Vehicles	7	N/A

The State has elected to use the "modified approach" to account for certain infrastructure assets. Under this process, the State does not record depreciation expense nor are amounts capitalized in connection with improvements to these assets, unless the improvements expand the capacity or efficiency of an asset. Utilization of this approach requires the State to: 1) commit to maintaining and preserving affected assets at or above a condition level established by the State, 2) maintain an inventory of the assets and perform periodic condition assessments to ensure that the condition level is being maintained, and 3) make annual estimates of the amounts that must be expended to maintain and preserve assets at the predetermined condition levels. Roads and bridges maintained by the Department of Transportation are accounted for using the modified approach.

### **Compensated Absences**

It is the State's policy to permit employees to accumulate earned but unused vacation and sick pay benefits. In the governmental fund financial statements, liabilities for compensated absences are accrued when they are considered "due and payable" and recorded in the fund only for separations or transfers that occur before year-end. In the government-wide and proprietary fund financial statements, the State has accrued a liability for compensated absences, recognizing the obligation to make payments.

### **Long-Term Obligations**

In the government-wide financial statements and proprietary fund financial statements, long-term debt and other long-term obligations are reported as liabilities in the applicable governmental activities, business-type activities, or proprietary fund statement of net assets. Bond premiums and discounts, as well as issuance costs, are deferred and amortized over the life of the bonds using the effective interest method. Bonds payable are reported net of the applicable bond premium or discount. Bond issuance costs are reported as deferred charges and amortized over the term of the related debt.

In the fund financial statements, governmental funds recognize bond premiums and discounts, as well as bond issuance costs, during the current period. The face amount of debt issued is reported as other financing sources. Premiums received on

debt issuances are reported as other financing sources while discounts on debt issuances are reported as other financing uses. Issuance costs, whether or not withheld from the actual debt proceeds received, are reported as expenditures.

### **Fund Equity**

In the fund financial statements, governmental funds report reservations of fund balance for amounts that are not available for appropriation or are legally restricted by outside parties for a specific purpose.

The State Constitution provides that certain excess unencumbered budgetary General Funds at the end of a fiscal year must be placed in a reserve account (the "Budget Reserve Account"). This account, designed to provide a cushion against unanticipated deficits, may not exceed 5% of the estimated General Fund revenue for the ensuing fiscal year. Total funding of the Budget Reserve Account was \$136.5 million at June 30, 2003. In the government-wide financial statements, restricted net assets represent balances that are subject to external restrictions or were created by enabling legislation. Designations of fund balance represent tentative management plans that are subject to change.

#### **(e) Grants**

Federal grants and assistance awards made on the basis of entitlement periods are recorded as intergovernmental receivables and revenues when entitlement occurs. All other federal reimbursement type grants are recorded as accounts receivable and revenue when the related expenditures or expenses are recognized. In addition to monetary transactions, Federal grants also include non-monetary transactions related to food stamps. Food stamps inventories are reported at coupon value in the General Fund.

#### **(f) Litigation Revenue**

In 1997, several states began litigation against several defendant tobacco product manufacturers to recover certain amounts the states expended to provide health care to numerous tobacco product users. In 1998, a settlement was reached which provided that the states cease litigation against the manufacturers. As part of the Master Settlement Agreement, certain manufacturers agreed to remit periodic payments to the states (amounting to \$200 billion, according to estimates) until 2025. Amounts to be remitted are calculated based on a variety of specific settlement provisions. Future tobacco product sales are one key factor used in determining periodic payment amounts. Delaware's settlement share for fiscal year 2003 was \$29.4 million. This amount is reported in the General Fund as part of "other" revenue. Future payments will be reported as revenue when they are received. No receivable for such payments has been reported pursuant to the settlement since the amounts to be received are contingent as described above. Monies received under

Notes to the Financial Statements, June 30, 2003

State of Delaware

the Master Settlement Agreement are dedicated to health care and related programs. Expenditures of these funds are authorized by Legislation.

## NOTE 2. CASH, INVESTMENTS AND RESTRICTED ASSETS

***The Cash Management Policy Board:*** The policy for the investment of State funds is the responsibility of the Cash Management Policy Board (the Board). The Board, created by State law, establishes policies for and the terms, conditions, and other matters relating to, the investment of all money belonging to the State except money in the DPERS and money held under the State deferred compensation program.

***Investment Guidelines and Management:*** The investment guidelines, adopted by the Board provide, among other things, that no more than 10% of the portfolio may be invested in obligations of any one issuer other than the U.S. Government. Investments may be made only in fixed income instruments with maturities of up to five years in certain circumstances.

***Collateralization Requirements:*** All State funds are required by law to be collateralized by direct obligations of, or obligations which are guaranteed by, the United States of America, or other suitable obligations as determined by the Board, unless the Board shall find such collateralization not in the best interest of the State. The Board has determined that certificates of deposit and time deposits must be collateralized unless the bank issuing the certificate has assets of not less than \$5 billion and is rated not lower than "B" by Keefe, Bruyette & Wood's Bank Watch Service. The Board has also determined that State demand deposits need not be collateralized provided that any bank that holds these funds has for the last two years, a return on average assets of 5% or greater and an average equity-capital ratio of at least 1:20. If the bank does not meet the above criteria, collateral must consist of one or more of the following:

- (a) U.S. Government securities;
- (b) U.S. Government agency securities;
- (c) State of Delaware securities; or
- (d) Securities of a political subdivision of the State with a Moody's Investors Service rating of "A" or better.

Additionally, the bank must ensure that those securities pledged as collateral have a market value equal to or greater than 102% of the ledger balance(s) in the account(s) each day and ensure that securities pledged are identified as held in the State's name and are segregated on the bank's records.

Cash and Cash Equivalents consist of demand deposits, short-term money market funds and other deposits held by financial institutions, generally with a maturity of

three months or less when purchased. Cash and cash equivalents are reported as deposits.

Cash and Cash Equivalents as reported on the statement of net assets, may be under the control of the State Treasurer or other administrative bodies as determined by the Cash Management Policy Board. All cash deposited with the State Treasurer by State agencies is maintained by the Treasurer in various pooled investment funds (State Investment Pool). The State Treasurer invests the deposited cash including the cash float in short-term securities and other investments.

An analysis of cash and investments by category of risk as required by GASB Statement No. 3 is presented below .

## **(A) DEPOSITS**

### **Primary Government**

At June 30, 2003, the carrying value and the bank balances of the State's deposits were \$814,901,000 and \$820,926,000 respectively. Of the bank balances, \$17,843,000 was insured by the Federal Deposit Insurance Corporation (FDIC) and/or collateralized with securities held by the State or by its agent in the State's name (Category 1). \$537,060,000 is uninsured and uncollateralized (Category 3). The remaining \$266,023,000 represents unemployment insurance taxes collected from Delaware employers that are held in escrow by the U.S. Treasury.

As a condition for operating in the State, various insurance companies have deposited an aggregate amount of \$395,525,000 into escrow. The State Insurance Commission and the insurance companies are joint custodians of such funds. Because the State can neither use nor release these funds without the joint approval of the insurer/depositor, these amounts are not reported in the State's financial statements.

### **Component Units**

#### **Delaware State Housing Authority**

The Delaware State Housing Authority's deposits for risk categorization consist of checking accounts, money market accounts, bank savings accounts and investment agreements. The total carrying value and bank balance of the deposits at June 30, 2003 was \$53,200,114, and \$53,800,289 respectively. Of the bank balance, \$1,499,555 was entirely insured or collateralized with securities held by the Authority or by its agent in the Authority's name (Category 1). The remaining \$52,300,734 consists of investment agreements that are neither insured nor collateralized (Category 3). For purposes of the financial statements, money market accounts,

bank savings are classified as investments and investment agreements are classified as restricted investments.

#### Diamond State Port Corporation

At June 30, 2003, the carrying value and bank balances of the Diamond State Port Corporation's cash deposits amounted to \$1,404,581 and \$1,600,427, respectively. Of the bank balances, \$100,000 is insured by the FDIC (Category 1) and the remaining \$1,500,427 is uninsured and uncollateralized (Category 3). \$222,330 of restricted cash and cash equivalents consists of short-term investments.

#### Riverfront Development Corporation

At June 30, 2003, the Riverfront Development Corporation's cash deposits carrying value and bank balances amounted to \$190,513 and \$333,457 respectively. Cash deposits include \$96,689 of restricted cash and cash equivalents. Of the bank balances, \$201,685 is insured by the FDIC (Category 1) and \$127,200 is uninsured and uncollateralized (Category 3). The remaining \$4,572 consists of deposits included in the State Investment Pool.

#### Delaware State University

At June 30, 2003, Delaware State University's deposits carrying value and bank balance was \$5,417,178 and \$3,396,556 respectively. An additional \$6,138,190 of cash and cash equivalents related to unexpended State appropriations are included on the Statement of Net Assets. Of the bank balances, \$100,000 was insured by FDIC (Category 1) and the remaining \$3,296,556 was uninsured and uncollateralized (Category 3).

#### Delaware Charter Schools

At June 30, 2003, the Delaware Charter Schools deposits carrying value was \$8,242,000, consisting entirely of deposits included in the State Investment Pool.

### **B. INVESTMENTS**

#### **Primary Government**

The table on the following page provides information about the custodial credit risks associated with the State's investments. Category 1 includes investments that are insured or registered or for which the securities are held by the State or its agent in the State's name. Category 2 includes uninsured and unregistered investments for which the securities are held by the counterparty, or by its trust department or agent

in the State's name. As of June 30, 2003 the State does not have any investments in Category 2. Category 3 includes uninsured and unregistered investments for which the securities are held by the counterparty, or by its trust department or agent but not in the State's name.

The State's Investments below include \$12,325,000 presented as restricted assets on the balance sheet. Pooled investments represent those investments in units of a pool rather than specific securities. As a result, such investments are not categorized as to risk because they are not evidenced by securities that exist in a physical or book-entry form.

### **PRIMARY GOVERNMENT INVESTMENTS**

(Expressed in Thousands)

Investment Type	Category		Total Fair Value
	1	3	
Commercial Paper	\$ 226,818	\$ 28,009	\$ 254,827
U.S. Government Agency Securities	162,186	479,372	641,558
Corporate Obligations		239,231	239,231
Foreign Government Securities		15,680	15,680
Municipal Bonds		13,994	13,994
Pension and Investment Trust Funds:			
Domestic Fixed Income	931,235		931,235
Domestic Equities	1,195,211		1,195,211
Short Term Investments *	123,190		123,190
Managed Futures	103,462		103,462
Foreign Equities	362,493		362,493
<b>SUBTOTAL</b>	<b>\$ 2,755,577</b>	<b>\$ 729,242</b>	<b>3,880,881</b>
Pooled Investments not subject to categorization: **			
Pooled Investments			14,770
Pension and Investment Trust Investment Pool:			
Pooled Equity & Fixed Income			1,708,682
Private Investments			456,366
<b>SUBTOTAL INVESTMENTS</b>			<b>\$ 6,060,699</b>
Less: Pooled Component Unit Investments			(55,140)
<b>TOTAL STATE INVESTMENTS ***</b>			<b>\$ 6,005,559</b>

\* Pension Short Term Investments primarily include Commercial Paper and overnight deposits.

\*\* Investments not evidenced by securities are not categorized.

\*\*\* Includes investments classified as restricted assets on the Statement of Net Assets.

	Governmental Activities	Business Type Activities	Fiduciary Funds	Totals
Cash/Cash Equivalents	\$ 505,117	\$ 282,345	\$ 26,366	\$ 813,828
Restricted Cash/Cash Equivalents		1,073		1,073
Short Term Investments	100,753	292,938	8,847	402,538
Long Term Investments	644,298	65,759		710,057
Restricted Investments		12,325	4,880,639	4,892,964
	<u>\$ 1,250,168</u>	<u>\$ 654,440</u>	<u>\$ 4,915,852</u>	<u>\$ 6,820,460</u>
Less: Carry Value of Deposits				(814,901)
Balance In State Investment Pool				<u>\$ 6,005,559</u>

The pooled investments of the pension and investment trust funds consist primarily of venture capital, limited partnerships, open-end mutual funds and real estate. The fair value of pension and investment trust investments is determined by quoted market values, where applicable. Investments in real estate pooled funds are determined based on appraised values. Venture capital and other limited partnership values are determined based on discounted market values where market quotes are available, and by various procedures for investments in non-traded partnerships where quotes are not available. In 1994, the Board of Pension Trustees of the DPERS adopted a formal written policy on the use of derivatives. Only a few selected managers are permitted to use derivatives. In every case, the types of derivatives used and limits on their use are spelled out in manager contracts and are monitored on an ongoing basis. The Board believes that it is unlikely that any of the derivatives used by managers of the DPERS could have a material adverse effect on the financial condition of the DPERS. Managers authorized to use derivatives do so to reduce foreign exchange risk and minimize transaction costs. Managers may also use derivatives as part of an overall strategy to enhance returns. The following lists principal categories of derivatives and their uses during the year:

Category	Purpose
Foreign exchange forward contracts	Hedge currency risk of investments denominated in foreign currencies
Exchange traded equity futures	Reduce transaction costs; hedge equity market risk; enhance return
Exchange traded fixed income futures	Reduce transaction costs; control portfolio duration; enhance return
Exchange traded options	Enhance return; reduce transaction costs
Asset backed securities	Enhance return

### ***Repurchase Agreements***

For repurchase agreements, the underlying securities consist of U.S. Government or government agency securities, certificates of deposit, commercial paper or bankers' acceptances. All repurchase transactions are governed by written repurchase agreements. Statutes require that securities underlying repurchase agreements must

have a market value of at least 102% of the cost of the repurchase agreement. Due to significantly higher cash flows at certain times during the fiscal year, the State's investment in overnight repurchase agreements for which the underlying securities were held by the dealer (Category 3) fluctuates.

#### ***Reverse Repurchase Agreements***

The Cash Management Policy Board permits the State to enter into reverse repurchase agreements, that is, a sale of securities with a simultaneous agreement to repurchase them in the future at the same price plus a contract rate of interest. At June 30, 2003, the State had no reverse repurchase agreements.

#### **COMPONENT UNITS**

##### **Delaware State Housing Authority**

The Delaware State Housing Authority invests its funds and those held by its trustees in accordance with the various applicable bond resolutions, Federal laws and regulations, and is under the oversight of the State's Cash Management Policy Board. DSHA investments categorized as to risk had a fair value of \$91,757,092 at June 30, 2003. Of this amount, \$42,445,356 was uninsured and unregistered investments for which the securities are held by the counterparty, or by its trust department or agent but not in the Authority's name (Category 3). The remaining \$49,311,736 represents pooled investments where the Authority does not own specific securities. This amount includes funds of \$40,755,769 specifically identified for the Authority in the State of Delaware's Investment Pool. These pooled investments are categorized by risk within the investments of the primary government.

##### **Diamond State Port Corporation**

The carrying and fair value of investments of the DSPC at June 30, 2003 amounted to \$2,888,965. The investments, consisting of various equity and mutual funds, are classified for credit risk as uninsured and unregistered investments for which the securities are held by the counterparty, or by its trust department or agent but not in the DSPC's name (Category 3).

##### **Delaware State University**

Investments of the University totaled \$13,076,590, stated at quoted market value. These investments consist of pooled investments where the University does not own specific securities.

### NOTE 3. RECEIVABLES

Taxes receivable represent the amount of personal, business, and other taxes determined to be measurable and available as of June 30, 2003. Taxes receivable which will not be available within 60 days of year end are recorded as deferred revenue. All taxes receivable are recorded net of an allowance for doubtful accounts. Uncollectability primarily results from identified assessment problems, inability to locate taxpayers, and accounts of decedents.

The State of Delaware levies taxes on real property through its school districts. Each of the three counties of the State establishes the assessed values of real estate and bills and collects its own property taxes. Local school property taxes are levied by local school districts based on the assessed value of real estate, as determined by county taxation formulas. Taxes are levied on July 1 and are payable on or before September 30. Taxes paid after the payable date are assessed a 6% penalty for nonpayment and 1% interest per month thereafter. Taxes are billed and collected by the Counties with funds remitted to the local school district to be used for the local share of school operating costs and debt service on general obligation bonds issued for capital improvements.

Receivables as of year-end for the State's individual major funds, including the applicable allowances for uncollectible accounts, are as follows:

	General	Federal Funds	Local School District Funds (Expressed in Thousands)	Unemployment	Lottery	DelDOT	Total Receivables
<b>Receivables:</b>							
Taxes	\$ 209,254		\$ 16,256	\$ 23,069			\$ 248,579
Interest		\$ 47,496	7			\$ 1,201	1,208
Accounts	590,238	47,496	191	7,249	\$ 14,317	4,133	663,624
Loans and Notes	64,587	6,079				27,500	98,166
Intergovernmental		67,862		486		4,435	72,783
<b>Total receivables</b>	<b>864,079</b>	<b>121,437</b>	<b>16,454</b>	<b>30,804</b>	<b>14,317</b>	<b>37,269</b>	<b>1,084,360</b>
Allowance for doubtful accounts	(667,781)	(43,369)	(229)	(8,908)	(679)		(720,966)
<b>Total receivable (net)</b>	<b>\$ 196,298</b>	<b>\$ 78,068</b>	<b>\$ 16,225</b>	<b>\$ 21,896</b>	<b>\$ 13,638</b>	<b>\$ 37,269</b>	<b>\$ 363,394</b>
Amounts not scheduled for collection during the subsequent year	\$ 14,661	\$ 6,636	\$ 12,570	\$	\$	\$ 27,500	\$ 61,367

Receivables as of year-end for the State's component Units, including the applicable allowances for uncollectible accounts, are shown below.

	<u>State Housing Authority</u>	<u>State Port Corporation</u>	<u>Riverfront Development Corporation</u>	<u>Delaware State University</u>	<u>Delaware Charter Schools</u>	<u>Total Receivables</u>
(Expressed in Thousands)						
Receivables:						
Interest	\$ 2,290					\$ 2,290
Accounts	17,798	\$ 3,083	\$ 175	\$ 14,940	\$ 1,474	\$ 37,470
Loans and Notes	448,266		3,375	510		452,151
Intergovernmental	322					322
Total receivables	<u>468,676</u>	<u>3,083</u>	<u>3,550</u>	<u>15,450</u>	<u>1,474</u>	<u>492,233</u>
Less: Allowance for doubtful accounts	<u>(1,540)</u>	<u>(118)</u>	<u>(1,931)</u>	<u>(1,842)</u>		<u>(5,431)</u>
Total receivables (net)	<u>\$ 467,136</u>	<u>\$ 2,965</u>	<u>\$ 1,619</u>	<u>\$ 13,608</u>	<u>\$ 1,474</u>	<u>\$ 486,802</u>
Amounts not scheduled for collection during the subsequent year	<u>\$ 387,132</u>	<u>\$</u>	<u>\$ 1,444</u>	<u>\$ 510</u>	<u>\$</u>	<u>\$ 389,086</u>

Governmental funds report deferred revenue in connection with receivables for revenues that are not considered to be available to liquidate liabilities of the current period. Governmental funds also defer revenue recognition in connection with resources that have been received, but not yet earned. Amounts considered unearned federal grant drawdowns are reported as deferred revenue.

At year end, the various components of deferred revenue and unearned revenue reported in the governmental funds were as follows:

	(Expressed in Thousands)
<b>Unavailable</b>	
Taxes Receivable	\$ 76,434
Non-tax Receivables	101,715
Intergovernmental Receivables	<u>627</u>
<b>Subtotal Unavailable</b>	<b>178,776</b>
<b>Unearned</b>	
Advance Park Reservation Fees	732
Federal Grant Advance Drawdowns	<u>7,795</u>
<b>Total Deferred Revenue</b>	<b><u>\$ 187,303</u></b>

## **NOTE 4. INTERFUND RECEIVABLES, PAYABLES, AND TRANSFERS**

### ***Due From/Due to Other Funds***

Receivables reported as "Due From Other Funds" and the related payables reported as "Due To Other Funds" represent amounts owed to State agencies by other agencies within the State reporting entity. Amounts receivable from or payable to

other levels of government are reported as Intergovernmental receivables or payables. The composition of Due From/Due To balances as of June 30, 2003 expressed in thousands is as follows.

Receivable Fund	Payable Fund	Amount
General Fund	Federal Fund	\$ 32,249
	Capital Project Fund	49,782
	Delaware State Lottery	1,371
		<hr/>
	Total	\$ 83,402
		<hr/>

The amounts due from the Federal Fund and Capital Projects Fund are recorded for borrowings to eliminate negative balances in the State Investment Pool. The amount for the Federal Fund is created by expenditures relating to reimbursement type federal grant revenues. The State Legislation authorizes certain Capital Project expenditures prior to the issuance of bonds. These costs result in a negative balance in the State Investment Pool. The negative balance is considered to be a borrowing from the General Fund. The amount due from the Delaware Lottery (reported as an internal balance on the Statement of Net Assets), represents profits required by law to be transferred to the General Fund.

#### ***Transfers In From /Out To Other Funds***

Transfers in and transfers out from/to other funds in the Statement of Revenues, Expenditures and Changes in Fund Balance, the Statement of Revenues, Expenses and Changes in Fund Net Assets, Proprietary Funds and Payment from the Primary Government in the Statement of Activities-Component Units represent transfers between funds. Transfers are used to 1) move revenues from the fund that statute requires to collect them to the fund that statute requires to expend them, 2) use restricted revenues collected in the General Fund to finance various programs accounted for in other funds in accordance with budgetary authorizations, and 3) move profits from the Delaware State Lottery as required by State law.

A schedule of transfers in and transfers out for the year ended June 30, 2003 is presented on the following page.

(Expressed in Thousands)

	<b>Transfers In</b>	<b>Transfers Out</b>
<b>Governmental Fund Types</b>		
General Fund	\$ 474,634	\$ 31,180
Federal Fund	2,663	21,836
Local School Fund		
Capital Projects Fund		177,728
<b>Proprietary Fund Types</b>		
Lottery		273,823
DELDOT Fund	<u>28,517</u>	<u>1,247</u>
<b>Total All Funds</b>	<u><u>\$ 505,814</u></u>	<u><u>\$ 505,814</u></u>

## **NOTE 5. GENERAL OBLIGATION BONDS**

General Obligation bonds have been authorized and issued primarily to provide funds for acquisition and construction of capital facilities for State administrative operations, public and higher education, public and mental health, correction and conservation purposes and for maintenance and construction of highway facilities.

The State Constitution provides that the State may issue general obligation bonds for specific purposes in amounts approved by the General Assembly. The enabling acts pursuant to which the bonds are issued provide that all bonds issued shall be direct obligations of the State of Delaware; that is, the bonds are secured by the pledge of the full faith and credit of the State. General Obligation bonds are redeemed over a period not to exceed 20 years, generally from available resources in the General fund. Accordingly, the State of Delaware has generally issued 10 and 20-year serial bonds with equal amounts of principal maturing each year. Bonds outstanding have call provisions providing for early redemption at the option of the State, generally beginning 8 or 10 years following the date of issue in the inverse order of maturity, in whole or in part, at a redemption price not to exceed 101% to 103% of par value.

On July 23, 2002, the State issued \$261,645,000 of general obligation bonds. These serial bonds mature between July 1, 2003 and July 1, 2023, and bear average annual interest rates of 4.58%. A portion of these proceeds, amounting to \$133,645,000 was used to advance refund \$132,740,000 of general obligation bonds. Investments were purchased and placed in an irrevocable trust with an escrow agent. The investments and fixed earnings on the investments are sufficient to fully provide for all future debt service on the refunded bonds. The refundings resulted in an economic gain of \$6,459,000 and a debt service cash savings over the next 16 years of \$10,843,000. The remaining proceeds of these bonds were used to provide funds for capital improvements to various State facilities.

On January 8, 2003, the State issued \$133,050,000 of general obligation bonds. These serial bonds mature between July 1, 2003 and July 1, 2023, and bear average annual interest rates of 3.87%. A portion of these proceeds, amounting to \$33,050,000, was used to advance refund \$34,530,000 of general obligation bonds. Investments were purchased and placed in an irrevocable trust with an escrow agent. The investments and fixed earnings on the investments are sufficient to fully provide for all future debt service on the refunded bonds. The refundings resulted in an economic gain of \$2,135,000 and a debt service cash savings over the next 8 years of \$2,215,000. The remaining proceeds of these bonds were used to provide funds for capital improvements to various State facilities.

On December 18, 2002, the State issued \$760,000 in General Obligation Qualified Zone Academy Bonds (QZABs). The QZABs are debt instruments that carry a substantial federal tax credit to the lending financial institution. The lender receives no interest payment from the borrower but receives an interest tax credit. The lender benefits from the tax credit that provides a greater return than bond interest would provide, while the State benefits because the loan is essentially interest free. Proceeds were used for renovation of public schools. The bonds mature in 2016.

Bonds issued and outstanding totaled \$854,261,900 at June 30, 2003. The State is authorized to issue an additional \$229.2 million of general obligation bonds at June 30, 2003. Interest rates and maturities of the outstanding General Obligation Bonds are detailed on the following page.

### **General Obligation Bonds**

Sale #	Description	Interest Rates	Maturity Date (Fiscal Year)	Balance	
				Outstanding	June 30, 2003 (Expressed in Thousands)
188	GO Refunding 2003B	4.0% - 5.0%	2012	\$ 33,050	
187	GO 2003A	2.625% - 5.0%	2023	100,000	
186	QZAB 2002B	0%	2017	760	
185	GO 2002A G.O. + Refund	4.0% - 5.25%	2012	261,645	
184	QZAB 2001B	0%	2011	649	
183	GO + Refunding 2001A	4.0% - 4.75%	2021	144,547	
182	GO 2000 A	5.0% - 5.5%	2020	57,500	
181	GO 1999 A	4.0% - 4.625%	2019	77,000	
179	GO + Refunding 1998A	4.5% - 4.75%	2018	83,415	
178	GO 1997 B	5.0%	2017	19,500	
177	GO 1997 A	5.0%	2017	24,000	
176	GO 1996 A	4.5% - 5.125%	2016	22,500	
175	GO 1994 B	5.25% - 6.125%	2015	6,750	
174	GO 1994 A	4.6% - 5.2%	2014	12,210	
173	GO Refunding 1993 B	2.5% - 5.0%	2012	315	
172	GO 1993 A	4.25% - 5.0%	2013	1,500	
171	GO Refunding 1992 C	2.75% - 5.75%	2010	4,285	
170	GO 1992 B	4.7% - 6.1%	2013	<u>4,636</u>	
					<u>\$ 854,262</u>

In prior years, the State has defeased certain general obligation bonds by creating separate irrevocable trust funds. New debt has been issued or cash appropriated and the proceeds have been used to purchase U.S. Government securities that were placed in the trust funds. The investments and fixed earnings from the investments are sufficient to fully service the defeased debt. Accordingly, the debt has been considered defeased and therefore has been removed as a liability from the Government-wide financial statements. As of June 30, 2003, a total of \$166.7 million of defeased bonds were outstanding.

The table presented on the following page sets forth the future debt service requirements on outstanding general obligation bonds at June 30, 2003.

**TOTAL GENERAL OBLIGATION BONDS**  
 (Expressed in Thousands)

<b>Fiscal Year Ending</b>	<b>June 30</b>	<b>PRINCIPAL</b>	<b>INTEREST</b>	<b>Total</b>
2004	\$ 94,312	\$ 38,358	\$ 132,670	
2005	89,945	34,501	124,446	
2006	86,261	30,379	116,640	
2007	81,324	26,167	107,491	
2008	72,240	22,446	94,686	
2009-2013	267,825	69,888	337,713	
2014-2018	111,635	23,659	135,294	
2019-2023	<u>50,720</u>	<u>5,541</u>	<u>56,061</u>	
<b>Totals</b>	<b><u>\$ 854,262</u></b>	<b><u>\$ 250,739</u></b>	<b><u>\$ 1,105,001</u></b>	

Changes in general obligation bonded debt during the year ended June 30, 2003, are summarized in Note 10.

## **NOTE 6. REVENUE BONDS**

### **REVENUE BONDS**

The State Constitution empowers certain State agencies and authorities to issue bonds that are not supported by the full faith and credit of the State. These bonds pledge income derived from acquired or constructed assets or some other stream of revenues to retire the debt and pay related interest.

### **PRIMARY GOVERNMENT**

#### ***Delaware Economic Development Office***

The Office has \$180,000 of industrial development revenue bonds outstanding at June 30, 2003, which are supported by the full faith and credit of the State. Future debt service requirements are dependent on lease rentals or other payments from the users of the projects financed with the separate bond proceeds. The State is liable for payment of principal and interest to the extent that the other sources default on payments.

#### **DelDOT Fund**

#### ***Delaware Transportation Authority***

The Delaware Transportation Authority (the Authority) is subject to oversight by the Department of Transportation and is included in the DelDOT fund. The Authority assists in the implementation of the State's plans and policies regarding the

coordination and development of a comprehensive, balanced transportation system for the State. It has the power to develop a unified system of air, water, vehicular and specialized transportation in the State. The Authority includes the Transportation Trust Fund and the Delaware Transit Corporation. The Secretary of the Department of Transportation, with consent of the Governor, appoints the Authority's Director.

To assist the Authority in financing a unified transportation system, the State created a Transportation Trust Fund (the Trust Fund) within the Authority which receives all receipts of the Authority. The primary sources of funding of the Trust Fund are motor fuel taxes and motor vehicles fees imposed and collected by the State and deposited in the Trust Fund, and revenue from the Delaware Turnpike, which the Authority owns and operates. The Authority also has the power to issue bonds, with legislative authorization, to finance improvements to the State's transportation system. The Authority may apply Trust Fund revenue in excess of debt service requirements for transportation projects, subject to legislative authorization, and may pledge any or all of this revenue to secure financing for these projects.

On August 15, 2002, the Trust Fund issued \$173,680,000 of Transportation System Senior Revenue Bonds, 2002 Series B. A portion of the proceeds was used for a current refunding of \$85,320,000 of Transportation System Senior Revenue Bonds. The refunding was undertaken to reduce the total future debt service payments. The transaction resulted in an economic gain of \$3,345,564 and a reduction of \$4,568,209 in future debt service payments.

On April 17, 2003, the Trust Fund issued \$277,210,000 of Transportation System Senior Revenue Bonds, 2003 Series. A portion of the proceeds was used for a current refunding of \$136,670,000 of Transportation System Senior Revenue Bonds. The refunding was undertaken to reduce the total future debt service payments. The transaction resulted in an economic gain of \$14,035,493 and a reduction of \$16,949,916 in future debt service payments.

The Authority has previously defeased various other bond issues by creating separate irrevocable trust funds. New debt has been issued and the proceeds have been used to purchase U.S. Government securities that were placed in the trust funds. The investments and fixed earnings from the investments are sufficient to fully service the defeased debt until the debt is called or matures. For financial reporting purposes, the debt has been considered defeased and is therefore removed as a liability of the Authority. As of June 30, 2003, a total of \$283,035,000 of defeased bonds are outstanding.

Bonds outstanding at June 30, 2003 amounted to \$863,145,000. The Delaware Transportation Authority had a total of \$195,470,550 in authorized but unissued bonds at June 30, 2003. Bonds outstanding at June 30, 2003 are detailed on the following page.

**Delaware Transportation Authority Revenue Bonds**

<b>Description</b>	<b>Interest Rates</b>	<b>Maturity Date (Fiscal Year)</b>	<b>Balance Outstanding June 30, 2003</b>
(Expressed in Thousands)			
Transportation System Senior Revenue Bonds - Series			
1992	5.3% - 5.4%	2012	\$ 2,825
1993	4.9% - 5.5%	2010	17,645
1993 A	4.65% - 5.25%	2014	7,870
1994	5.6% - 6.50%	2014	6,235
1997	5.0% - 6.0%	2017	100,455
1998	4.0% - 5.5%	2016	59,470
2000	5.0% - 6.0%	2020	30,560
2001	3.5% - 5.25%	2021	63,700
2002	4.0% - 5.0%	2008	43,015
2002 B	3.0% - 5.25%	2022	173,680
2003	3.0% - 5.0%	2023	277,210
Transportation System Junior Revenue Bonds - Series			
1992	5.3% - 5.4%	2009	510
1993	4.9% - 5.0%	2005	29,320
1997	4.5%	2004	2,530
2002	4.375% - 5.0%	2009	48,120
		Totals	863,145
		Less: Current portion	47,640
			<u>\$ 815,505</u>

Future debt service requirements for the Authority's outstanding bonds are shown in the table below.

**Delaware Transportation Authority Revenue Bonds**

(Expressed in Thousands)

<b>Year Ending June 30</b>	<b>Principal</b>	<b>Interest</b>	<b>Total</b>
2004	\$ 47,640	\$ 38,176	\$ 85,816
2005	53,920	39,175	93,095
2006	55,095	36,433	91,528
2007	56,875	33,571	90,446
2008	60,345	30,619	90,964
2009-2013	259,120	109,638	368,758
2014-2018	196,725	55,081	251,806
2019-2023	133,425	16,311	149,736
Totals	<u>\$ 863,145</u>	<u>\$ 359,004</u>	<u>\$ 1,222,149</u>

## COMPONENT UNITS

### ***Delaware State Housing Authority***

The Authority is authorized to issue bonds and notes, with the approval of the State, in order to exercise its powers. These bonds and notes are secured solely by the revenues, loans, and other pledged assets under the related Bond Indenture of the Authority. Bonds issued by the Authority are not secured by the full faith, credit and taxing power of the State.

The Delaware State Housing Authority has issued revenue bonds to provide financing for mortgage, construction, and other loans to not-for-profit and limited for-profit housing sponsors; to make loans to mortgage lenders, requiring the proceeds thereof to be used for making new qualified residential mortgage loans; and to purchase qualified mortgage loans from mortgage lenders. The bonds are direct obligations of the Authority and are secured by the mortgage loans made or purchased under the applicable resolutions; the revenues, prepayments and foreclosure proceeds received are related to the mortgage loans, and certain funds and accounts established pursuant to the applicable bond resolutions. All bonds are callable subject to certain restrictions. Interest rates on bonds outstanding range from 2.25% to 10.375% with maturities through October 1, 2035.

The Authority's Single Family Mortgage Revenue Bonds 2003 Series A is a total of \$30,000,000 being issued in tranches. From February 18, 2003 to June 26, 2003, the Authority issued a total of \$18,881,115. Proceeds of the sales were used for making new qualified residential mortgage loans and to purchase qualified mortgage loans from mortgage lenders.

Outstanding bonds at June 30, 2003 amounted to \$379,605,000. Future debt service requirements for the Authority's bonds are shown below.

**Delaware State Housing Authority Revenue Bonds**  
(Expressed in Thousands)

<b>Year Ending June 30</b>	<b>Principal</b>	<b>Interest</b>	<b>Total</b>
2004	\$ 11,240	\$ 19,819	\$ 31,060
2005	11,771	19,321	31,092
2006	12,064	18,779	30,843
2007	12,492	18,194	30,686
2008	13,203	17,551	30,754
2009-2013	66,367	76,760	143,127
2014-2018	58,730	58,304	117,034
2019-2023	69,088	57,939	127,027
2024-2028	58,731	31,849	90,580
2029-2033	44,569	12,862	57,431
2034-2038	21,350	11,270	32,620
<b>Total</b>	<b>\$ 379,605</b>	<b>\$ 342,648</b>	<b>\$ 722,254</b>

***Riverfront Development Corporation***

Bonds payable represents amounts due under variable rate bonds, which were issued by RDC in November 1997. The bonds bear interest at a rate which is determined quarterly and is equal to the yield on 90-day U.S. Treasury Bills plus .30%. The rate as of June 30, 2003 was 5.125%. The bonds mature December 1, 2017. The bonds are subject to mandatory redemption requirements as shown on the below.

**Riverfront Development Corporation Revenue Bonds**

(Expressed in Thousands)

<b>Year Ending June 30</b>	<b>Principal</b>	<b>Interest</b>	<b>Total</b>
2004	\$ 180	\$ 270	\$ 450
2005	200	261	461
2006	240	249	489
2007	245	237	482
2008	275	224	499
2009-2013	1,785	869	2,654
2014 - 2018	<u>2,440</u>	<u>302</u>	<u>2,742</u>
Total	<u>\$ 5,365</u>	<u>\$ 2,412</u>	<u>\$ 7,777</u>

***Delaware State University***

In May of 1999, the University issued Revenue Refunding Bonds of \$15,865,000 (par value) to advance refund the 1992 and 1996 series bonds with a total par value of \$14,625,000. The Bond Trust Indenture requires the University to maintain a Debt Service Reserve Fund equal to the maximum annual debt service on all bonds outstanding under the Indenture. The indenture provides for the deposit of a surety bond in the Debt Reserve Fund replacing the investment requirement. This bond was obtained from MBIA Insurance Corporation in the amount of \$1,580,000. The bond ratings were not changed as a result of this substitution. In addition, the University has pledged for payment of debt, all net operating and non-operating revenues, except State appropriations and restricted gifts, grants and bequests, for each academic year during which any of the bonds remain outstanding.

Interest rates range from 3.65% to 5.25% on the outstanding Revenue Refunding Bonds. Debt service requirements for the Delaware State University Bonds are shown on the following page.

**Delaware State University Revenue Refunding Bonds**

Year Ending June 30	(Expressed in Thousands)		
	Principal	Interest	Total
2004	\$ 870	\$ 554	\$ 1,424
2005	905	521	1,426
2006	940	485	1,425
2007	690	453	1,143
2008	720	2,086	2,806
2009 - 2013	4,035	897	4,932
2014 - 2018	<u>4,980</u>	<u>29</u>	<u>5,009</u>
Total	\$ 13,140	<u>\$ 5,025</u>	<u>\$ 18,165</u>
Less: Unamortized Bond Discount		(68)	
		<u>\$ 13,072</u>	

## NOTE 7. LOANS AND NOTES PAYABLE

### ***Delaware State Housing authority (DSHA)***

Notes payable of the DSHA represent obligations to Wilmington Trust Corporation, FNMA and the State.

The State issued General Obligation bonds on behalf of the DSHA to provide funding for low-income housing loans. Proceeds from these bonds enabled the DSHA to receive the savings from the FAF issues in advance. Debt service requirements for these notes are shown below.

### **Delaware State Housing Authority Financing Adjustment Factor (FAF) Notes (Expressed in Thousands)**

Year Ending June 30	Principal	Interest	Total
2004	\$ 197	\$ 35	\$ 232
2005	47	25	72
2006	46	23	70
2007	46	21	67
2008	115	19	134
2009-2013	355	260	615
2014-2018	39	3	41
Total	<u><u>\$ 845</u></u>	<u><u>\$ 386</u></u>	<u><u>\$ 1,231</u></u>

The Authority acquired a building for general administrative purposes using the proceeds from a mortgage note issued by Wilmington Trust Corporation. The note is payable through January 2007 at an interest of 4.75%. The total principal balance at June 30, 2003 is \$354,206. Annual debt service requirements on this note are as follows:

**Delaware State Housing Authority**  
**Wilmington Trust Corporation Note**  
(Expressed in Thousands)

Year Ending June 30	Principal	Interest	Total
2004	\$ 18	\$ 15	\$ 33
2005	21	14	35
2006	22	13	35
2007	293	7	300
Total	<u>\$ 354</u>	<u>\$ 49</u>	<u>\$ 403</u>

The Authority entered into a \$6,300,000 loan agreement with FNMA in May 2003 to provide construction financing for three HDF/Tax Credit developments through FNMA's American Community Fund (ACF). The total principal balance at June 30, 2003 is \$867,254. The note is payable as the construction project loans convert to permanent HDF mortgages through April 2006 with interest accruing at an adjustable rate obtained by adding one hundred forty (140) basis points (1.40%) to the three month LIBOR, adjusted quarterly, based on such rate as published in *The Wall Street Journal* on the last business day of the month immediately preceding each quarter. Debt service requirements for the \$867,254 FNMA/ACF note payable cannot be accurately scheduled due to uncertain timing of principal draws as construction progress and repayments as construction projects convert to permanent loans. Based on this principal and an interest rate in effect at the end of the year of 2.72%, the annual cost would be approximately \$24,000.

***Diamond State Port Corporation (DSPC)***

Loan and Notes payable of the DSPC at June 30, 2003 are as follows.

(Expressed in Thousands)

City of Wilmington:

Port Debt Service Notes	\$ 28,201
Transportation Trust Fund Loan	<u>27,500</u>
Total	<u><u>\$ 55,701</u></u>

### Transportation Trust Fund Loan

On November 1, 2001, the DSPC entered into a loan agreement with the Department of Transportation of the State of Delaware (DOT). The DSPC borrowed \$25,500,000 on February 2, 2002 and \$2,000,000 on May 2, 2002. The funds were used to repay the balances in full of the Delaware River and Bay Authority Note and the Wilmington Trust Company Note; and, at a discount, the City of Wilmington Deferred Payment Note. In addition, the loan provided \$8,648,136 to establish a fund to be invested. This fund is to be used to pay portions of debt service as they become due, and is restricted for this purpose.

The rate of interest on the loan is 4.6%. The first payment on the loan was due January 1, 2003 and was for interest only. Thereafter, payments of principal and interest are due semi-annually over a twenty-year period. Interest expense charged to operations in 2003 was \$1,273,665.

#### **Transportation Trust Fund Loan** (Expressed in Thousands)

<b>Year Ending June 30</b>	<b>Principal</b>	<b>Interest</b>	<b>Total</b>
2004	\$ 863	\$ 1,255	\$ 2,118
2005	903	1,215	2,118
2006	945	1,173	2,118
2007	989	1,129	2,118
2008	1,035	1,083	2,118
2009-2013	5,943	4,647	10,590
2014-2018	7,460	3,130	10,590
2019-2023	9,362	1,225	10,587
<b>Total</b>	<b>\$ 27,500</b>	<b>\$ 14,857</b>	<b>\$ 42,357</b>

### City of Wilmington

In consideration of the acquisition of the Port of Wilmington assets from the City of Wilmington, Delaware (the City), the DSPC issued to the City two separate notes consisting of a Port Deferred Payment Note in the amount of \$39,900,000 and Port Debt Service Notes with original face amounts of \$51,080,622. These notes are secured by a first lien on substantially all of the DSPC's assets.

### Port Debt Service Notes

These notes obligate the DSPC to pay the City amounts that generally represent the outstanding principal balance of certain DSPC-related City general obligation bonds. The interest rates on the City bonds range from 3.2% to 6.4%.

On October 20, 2001, the City issued \$22,165,000 of general obligation bonds with an average interest rate of 3.7% to advance refund \$21,335,000 of outstanding 1992 A, B, and C Series general obligation bonds with an average interest rate of 6.16%. The Port related portions of the new bonds issued and old bonds redeemed were \$7,206,705 and \$6,945,086 respectively, passed through to the Corporation. Although the effect of the City's advance refunding on the Port Debt Service Note resulted in a deferred accounting loss of \$261,619 for the year ended June 30, 2002, it reduces the Corporation's debt service payments by \$281,293 over the next eleven years resulting in an economic gain. The deferred loss on the refunding is accreted over the eleven years of the life of the debt. The deferred loss balance as of June 30, 2003 was \$175,979.

Principal and interest payments made on the notes during 2003 were \$3,325,927 and \$1,461,143, respectfully. Interest expense in 2003 was \$1,423,409.

The future principal and interest payments on Port Debt Service Notes are as follows:

<b>Port Debt Service Note</b> (Expressed in Thousands)				
<b>Year Ending June 30</b>	<b>Principal</b>	<b>Interest</b>	<b>Total</b>	
2004	\$ 3,554	\$ 1,313	\$ 4,867	
2005	3,300	1,155	4,455	
2006	2,980	1,007	3,987	
2007	3,117	866	3,983	
2008	3,261	715	3,976	
2009-2013	7,817	1,971	9,788	
2014-2018	2,844	743	3,587	
2019-2023	1,504	195	1,699	
After 2022				
Subtotal	28,377	7,965	36,342	
Deferred Loss on Refunding	(176)	- 0 -	(176)	
<b>Total</b>	<b>\$ 28,201</b>	<b>\$ 7,965</b>	<b>\$ 36,166</b>	

### ***Riverfront Development Corporation***

The RDC has entered into multiple mortgage agreements with various banks. These mortgages are secured by the real estate and vehicles financed. Principal balances of the mortgages total \$11,239,546 at June 30, 2003. Interest rates for the mortgages vary between 4.34% and 8.5% and mature between July 2003 and October 2007. Estimated future annual debt service requirements are as follows:

(Expressed in Thousands)

<b>Year Ending June 30</b>	<b>Principal</b>	<b>Interest</b>	<b>Total</b>
2004	\$ 9,076	\$ 377	\$ 9,453
2005	725	110	835
2006	1,155	45	1,200
2007	12	15	27
2008	271	7	278
<b>Total</b>	<b><u>\$ 11,239</u></b>	<b><u>\$ 554</u></b>	<b><u>\$ 11,794</u></b>

#### Demand Note Payable and Advance Payable

RDC has available a line of credit in the amount \$500,000. This loan bears interest at .75% over prime (5.0% at June 30, 2003) and due on demand. The outstanding balance on this loan was \$500,000 as of June 30, 2003. This loan secured by a mortgage on real property.

Advance payable consists of an advance received from DNREC of \$500,000. The advance is noninterest bearing and is to be repaid from proceeds from a claim that RDC has against the U.S. Department of Defense for environmental remediation costs incurred. RDC expects proceed from the claim, sufficient to repay the advance, will be received during the year ended June 30, 2004.

Both the demand note payable and the advance payable are recorded as current obligations.

## **NOTE 8. LEASE COMMITMENTS**

### **PRIMARY GOVERNMENT**

The State has entered into various property and equipment operating leases (terms in excess of one year) with aggregate future rentals approximating \$135.7 million, of which \$110.3 million relates to property leases and \$25.4 million relates to equipment leases. Operating leases contain various renewal options. Any escalation clauses, sublease rentals and contingent rents are considered immaterial to the future minimum lease payments and current rental expenditures. Operating lease payments are recorded as expenditures of the related fund when paid. Appropriations of approximately \$27.1 million were made by the General Assembly to meet the rental payments in fiscal 2003, of which \$16.2 million was for office space and \$10.9 million was for equipment consisting mainly of computers, data processing equipment and fleet vehicles.

Significant annual equipment rentals include \$4.6 million for computers and data processing equipment for the Executive Department and \$3.7 million for fleet

vehicles with the Department of Administrative Services. Significant annual real estate rentals include \$5.1 million for leases for Health and Social Services facilities, \$2.3 million for the Department of Labor and \$1.8 million for office space of the Department of Services for Children, Youth and Their Families.

Future minimum lease commitments for operating leases as of June 30, 2003 are shown in the following table.

**State of Delaware Lease Commitments**  
(Expressed in Thousands)

Year Ending June 30	Operating Leases
2004	\$ 25,826
2005	20,390
2006	15,384
2007	10,782
2008	9,170
2009-2013	26,341
2014-2018	11,321
2019-2023	2,634
2024- 2028	2,325
2029- 2033	1,704
Thereafter	9,860
	<u><u>\$ 135,737</u></u>

## **NOTE 9. OTHER LONG-TERM OBLIGATIONS**

Compensated absences payable are reported in the Government-wide Financial Statements and in Proprietary Funds. They represent benefits accrued to State employees for vacation earned as of year-end and sick leave estimated to be paid out at retirement for services rendered as of June 30, 2003. Employees earn from 1.25 to 1.75 days of vacation leave per month depending on years of service. The employee or his estate is paid for unused vacation upon termination of employment. Employees earn 1.25 days of sick leave per month. The State's obligation for sick leave credit is a maximum of 45 workdays. \$112.5 million has been accrued in long-term obligations for the Governmental Funds and \$11.6 million in the Proprietary Funds for the compensated absences liability.

The State has recorded \$52.7 million relating to the accrual of the long-term obligation for escheat (abandoned property). \$24.7 million was recorded as a current obligation.

The State has incurred obligations relating to scholarship and physician loan repayment programs resulting in an additional long-term obligation of \$3.0 million. \$0.4 million was recorded as a current obligation. An additional long-term obligation relates to the purchase of the Wilmington Public Building. \$28,077 was paid during

Notes to the Financial Statements, June 30, 2003

State of Delaware

the year ended June 30, 2003. The remaining balance of \$30,194 is reported as a current obligation as the final payment is to be made in 2004.

## NOTE 10. CHANGES IN LONG-TERM OBLIGATIONS

The State uses the General Fund to liquidate approximately 80% of compensated absences and all other long-term obligations. Local school funds and Federal Funds are used to liquidate 13% and 7% of the remaining compensated absences obligations.

The following table provides a summary of changes in long-term obligations for the year ended June 30, 2003.

CHANGES IN LONG-TERM OBLIGATIONS						
Primary Government (Expressed in Millions)						
	Beginning Balance	Additions	Reductions	Ending Balance	Due Within One Year	
Governmental Activities						
General obligation bonds	\$ 709.9	\$ 395.5	\$ (251.1)	\$ 854.3	\$ 94.3	
Bond issue premium, net of accumulated amortization		23.9	(1.4)	22.5		
Revenue bonds and Public Bldg	0.4		(0.2)	0.2		
Physician Programs and Scholarships		3.0		3.0	0.4	
Claims and Judgments	97.4	429.1	(413.0)	113.5	49.2	
Compensated Absences	114.9		(2.4)	112.5		
Net pension obligation	71.8	27.5	(18.7)	80.6		
Escheat payable	47.7	15.3	(10.3)	52.7	24.7	
Governmental activities long-term liabilities	<u>\$ 1,042.1</u>	<u>\$ 894.3</u>	<u>\$ (697.1)</u>	<u>\$ 1,239.3</u>	<u>\$ 168.6</u>	
Business-type Activities						
Revenue bonds	675.7	228.9	(41.5)	863.1	47.6	
Bond issue premium, net of accumulated amortization	5.1	30.5		35.6		
Compensated Absences	11.2	0.6	(0.2)	11.6	3.6	
Claims and judgments	11.5	7.8	(2.7)	16.6	2.1	
Business type Activities long-term liabilities	<u>\$ 703.5</u>	<u>\$ 267.8</u>	<u>\$ (44.4)</u>	<u>\$ 926.9</u>	<u>\$ 53.3</u>	

Changes in long-term obligations for the Component Units are summarized on the following page.

	Component Units (Expressed in Millions)					
	Beginning Balance	Additions	Reductions	Ending Balance	Due Within One Year	
<b>Delaware State Housing Authority</b>						
Notes Payable	\$ 3.5	\$ 0.9	\$ (2.3)	\$ 2.1	\$ 0.2	
Revenue bonds	424.8	21.0	(66.2)	379.6	11.2	
Compensated Absences	0.7	0.1		0.8	0.0	
<b>Total Long Term Obligations</b>	<b>\$ 429.0</b>	<b>\$ 22.0</b>	<b>\$ (68.5)</b>	<b>\$ 382.5</b>	<b>\$ 11.4</b>	
<b>Diamond State Port Corporation</b>						
Notes Payable	\$ 31.5	\$	\$ (3.3)	\$ 28.2	\$ 3.6	
Loans Payable		27.5		27.5		0.9
Other Non-current	3.3		(3.2)	0.1		
<b>Total Long Term Obligations</b>	<b>\$ 34.8</b>	<b>\$ 27.5</b>	<b>\$ (6.5)</b>	<b>\$ 55.8</b>	<b>\$ 4.5</b>	
<b>Riverfront Development Corporation</b>						
Bonds Payable	\$ 5.5	\$	\$ 0.1	\$ 5.4	\$ 0.2	
Long term debt	15.7	7.0	(11.5)	11.2		9.1
<b>Total Long Term Obligations</b>	<b>\$ 21.2</b>	<b>\$ 7.0</b>	<b>\$ (11.4)</b>	<b>\$ 16.6</b>	<b>\$ 9.3</b>	
<b>Delaware State University</b>						
Lease Obligations	\$ 0.5	\$	\$ (0.1)	\$ 0.4	\$ 0.2	
Notes Payable		0.6		0.6		0.1
Revenue bonds	13.9		(0.8)	13.1		0.9
<b>Total Long Term Obligations</b>	<b>\$ 14.4</b>	<b>\$ 0.6</b>	<b>\$ (0.9)</b>	<b>\$ 14.1</b>	<b>\$ 1.2</b>	
<b>Delaware Charter Schools</b>						
Long term debt		\$ 22.5		\$ 22.5	\$ 1.4	
<b>Total Long Term Obligations</b>	<b>_____</b>	<b>\$ 22.5</b>	<b>_____</b>	<b>\$ 22.5</b>	<b>\$ 1.4</b>	

## **NOTE 11. NO COMMITMENT DEBT (NOT INCLUDED IN FINANCIAL STATEMENTS)**

The State of Delaware, by action of the General Assembly, created various authorities for the express purpose of providing private entities with an available low cost source of capital financing for construction of facilities deemed to be in the public interest. The bonds of the authorities represent limited obligations payable solely from payments made by the borrowing entities. The majority of the bonds are secured by the property financed. Upon repayment of a bond, ownership of acquired property transfers to the entity served by the bond issuance. The State has no obligation for this debt. Accordingly, these bonds are not reflected in the accompanying financial statements. These bonds are issued through the Delaware Economic Development Authority and the Delaware Health Facilities Authority. The principal amount of bonds outstanding at June 30, 2003 for these entities amounted to \$1.9 billion and \$310.9 million, respectively.

**NOTE 12. CAPITAL ASSETS****PRIMARY GOVERNMENT**

Capital asset activities for the fiscal year ended June 30, 2003 were as follows:

(Expressed in Thousands)

<b>Governmental Activities</b>	<b>Beginning Balance</b>	<b>Increases</b>	<b>Decreases</b>	<b>Ending Balance</b>
Capital Assets, not being depreciated				
Land	\$ 265,155	\$ 21,269		\$ 286,424
Easements	64,345	2,477		66,822
Construction-in-progress	<u>462,119</u>	<u>214,226</u>	<u>\$ (379,547)</u>	<u>296,798</u>
Total capital assets, not being depreciated	<u>791,619</u>	<u>237,972</u>	<u>(379,547)</u>	<u>650,044</u>
Capital assets, being depreciated				
Vehicles	50,222	5,409	(5,590)	50,041
Buildings	1,025,790	414,458	(2,879)	1,437,369
Equipment	74,831	8,562	(13,828)	69,565
Land Improvements	<u>34,234</u>	<u>1,578</u>	<u>(2,182)</u>	<u>33,630</u>
Total capital assets being depreciated	<u>1,185,077</u>	<u>430,007</u>	<u>(24,479)</u>	<u>1,590,605</u>
Less accumulated depreciation for:				
Vehicles	(31,872)	(3,755)	5,425	(30,202)
Buildings	(500,138)	(24,306)	2,071	(522,373)
Equipment	(42,528)	(9,095)	12,787	(38,836)
Land Improvements	<u>(11,075)</u>	<u>(1,150)</u>	<u>2,182</u>	<u>(10,043)</u>
Total accumulated depreciation	<u>(585,613)</u>	<u>(38,306)</u>	<u>22,465</u>	<u>(601,454)</u>
Total capital assets, being depreciated, net	<u>599,464</u>	<u>391,701</u>	<u>(2,014)</u>	<u>989,151</u>
Governmental activities capital assets, net	<u>\$ 1,391,083</u>	<u>\$ 629,673</u>	<u>\$ (381,561)</u>	<u>\$ 1,639,195</u>

<b>Business-type Activity DelDOT Fund</b>	<b>Beginning Balance</b>	<b>Increases</b>	<b>Decreases</b>	<b>Ending Balance</b>
Capital Assets, not being depreciated				
Land	\$ 11,230			\$ 11,230
Infrastructure	<u>3,201,814</u>	<u>\$ 24,997</u>		<u>3,226,811</u>
Total capital assets, not being depreciated	<u>3,213,044</u>	<u>24,997</u>		<u>3,238,041</u>
Capital assets, being depreciated				
Buildings	50,658	1,319	\$ (6)	51,971
Vehicles and equipment	<u>143,377</u>	<u>27,147</u>	<u>(17,957)</u>	<u>152,567</u>
Total capital assets being depreciated	<u>194,035</u>	<u>28,466</u>	<u>(17,963)</u>	<u>204,538</u>
Less accumulated depreciation for:				
Buildings	(17,238)	(1,717)		(18,955)
Vehicles and equipment	<u>(63,745)</u>	<u>(14,695)</u>	<u>17,249</u>	<u>(61,191)</u>
Total accumulated depreciation	<u>(80,983)</u>	<u>(16,412)</u>	<u>17,249</u>	<u>(80,146)</u>
Total capital assets, being depreciated, net	<u>113,052</u>	<u>12,054</u>	<u>(714)</u>	<u>124,392</u>
Business-type activity capital assets, net	<u>\$ 3,326,096</u>	<u>\$ 37,051</u>	<u>\$ (714)</u>	<u>\$ 3,362,433</u>

<b>Business-type Activities</b> <b>Lottery</b>	<u>Beginning Balance</u>	<u>Increases</u>	<u>Decreases</u>	<u>Ending Balance</u>
Capital assets being depreciated				
Vehicles and equipment	\$ 1,855		\$ (460)	\$ 1,395
Total capital assets being depreciated	<u>1,855</u>		<u>(460)</u>	<u>1,395</u>
Less accumulated depreciation for:				
Vehicles and equipment	(1,191)	\$ (181)	362	(1,010)
Total accumulated depreciation	<u>(1,191)</u>	<u>(181)</u>	<u>362</u>	<u>(1,010)</u>
Total capital assets, being depreciated, net	<u>664</u>	<u>(181)</u>	<u>(98)</u>	<u>385</u>
Business-type activity capital assets, net	<u>\$ 664</u>	<u>\$ (181)</u>	<u>\$ (98)</u>	<u>\$ 385</u>

Depreciation expense was charged to the following primary government functions as follows:

(Expressed in Thousands)

Governmental Activities:

General Governments	\$ 6,474
Health and Children's Services	1,189
Judicial and Public safety	10,476
Natural Resources and Environmental Control	2,058
Labor	79
Education	<u>18,030</u>

Total Depreciation Expense - Governmental Activities

\$ 38,306

Business-type Activities:

Transportation	\$ 16,412
Lottery	<u>181</u>

Total Depreciation Expense- Business-type Activities

\$ 16,593

## **NOTE 13. RISK MANAGEMENT**

The State is exposed to various risks of losses related to workers' compensation, employee health-care and accident, automobile accident, police professional malpractice and property and casualty claims. It is the policy of the State not to purchase commercial insurance to cover these risks. Instead, State management believes it is more economical to manage its risk internally and thus, covers all claim settlements and judgments out of its General Fund. The State continues to carry commercial insurance for all other risks of loss, including general liability and the remainder of the property and casualty liability. There have been no significant reductions in insurance coverage from prior years. In the past three years of insured coverage, settled claims have not exceeded commercial coverage.

Claim liabilities are reported when it is probable that a loss has occurred and the amount of that loss can be reasonably estimated. Liabilities include an amount for

claims that have been incurred but not reported. Because actual claim liabilities depend on such complex factors as inflation, changes in legal doctrines and damage awards, the process does not result in an exact amount. Claim liabilities are reevaluated annually to take into consideration recently settled claims, the frequency of claims and other economic and social factors.

The Management of the State estimates that the amount of actual or potential claims against the State as of June 30, 2003, for workers' compensation, automobile accident and health-care claim liabilities is \$113.5 million. The claim liabilities relating to health-care totaling \$49.2 million have been recorded as current liabilities. The liability for workers' compensation and automobile accident liabilities of \$64.3 million have been recorded as long-term obligations. Other claim liabilities relating to police professional malpractice and property and casualty were not recorded at June 30, 2003 as the total of these liabilities were not material to the financial statements. Changes in the balances of claim liabilities during fiscal years 2002 and 2003 were as follows:

(Expressed in Thousands)

Fiscal Year	Beginning Balance July 1	Current Year			Ending Balance June 30
		Claims and Changes in Estimates	Actual Claim Payments		
2002	\$ 95,194	\$ 384,570	\$ (382,350)	\$ 97,414	
2003	\$ 97,414	\$ 429,108	\$ (413,064)	\$ 113,458	

## **NOTE 14. PENSIONS**

### **PRIMARY GOVERNMENT**

#### ***State of Delaware Pension Plans***

The State Board of Pension Trustees administers the following defined benefit plans of the Delaware Public Employees' Retirement System (DPERS):

- \*State Employees' Pension Plan;
- \*Special Pension Plan;
- \*New State Police Pension Plan;
- \*Judiciary Pension Plans (Closed and Revised);
- \*County and Municipal Police/Firemen's Pension Plans  
(FICA and Non-FICA);
- \*County and Municipal Other Employees' Pension Plan;

- \*Volunteer Firemen's Pension Plan;
- \*Diamond State Port Corporation Pension Plan; and
- \*Closed State Police Pension Plan.

With the exception of the Diamond State Port Corporation Pension Plan, the State of Delaware General Assembly is responsible for setting benefits and contributions and amending plan provisions. The Board of Directors for the Diamond State Port Corporation is responsible for setting benefits and contributions and amending plan provisions.

The individual plans comprising the DPERS are considered part of the State's financial reporting entity and are included in the accompanying financial statements as pension trust funds in the fiduciary funds. All of the investment assets of the Plans, with the exception of the Closed Police Pension Plan, are pooled and invested in the common DPERS Master Trust Fund (Master Trust). Each of the Plans has equity in the Master Trust based on funds contributed and earnings allocated. Individual investments in the Master Trust are not specifically identified to the various Plans.

Additionally, the following non-DPERS funds, described below, have been established under the custody of the State Board of Pension Trustees.

- \*County and Municipal Police/Firemen's COLA Fund;
- \*Post-Retirement Increase Fund; and
- \*Delaware Local Government Retirement Investment Pool.

#### ***Non-DPERS Fund Descriptions and Contributions***

##### **County and Municipal Police and Firemen's COLA Fund**

During 1990, the State of Delaware passed legislation, which established a mechanism for funding post-retirement increases granted by employers who participate in the County and Municipal Police and Firemen's Pension Plans. This mechanism allows the State to appropriate funds to a separate County and Municipal Police and Firemen's COLA Fund managed by the Board. The funds are generated by a 0.25% tax on the value of insurance premiums written within the State. The State and local governments transfer the proceeds of the tax on a per officer basis. The portion of the tax payable relating to the State Police is re-directed into the COLA Fund. When a participating employer grants a post-retirement increase, funds are transferred from the COLA Fund to the employer. The participating employer must provide funds to match the State's contribution.

**Post-Retirement Increase Fund (PRI)**

During 1993, the State of Delaware passed legislation which established a mechanism for funding ad hoc post-retirement increases granted by the General Assembly to employees retired under the State Employees' Plan, the New State Police Plan and the Judiciary Plans (Closed and Revised) beginning with Fiscal 1994. The mechanism allows the State to appropriate actuarially determined employer contributions to a separate Post-Retirement Increase Fund managed by the Board. When the Legislature grants an ad hoc post-retirement adjustment, funds are transferred from this Post-Retirement Increase Fund on a monthly basis based on a 5-year actuarial funding schedule to the appropriate pension plan from which the additional benefits are disbursed.

**Investment Trust Fund**

In June 1996, the State of Delaware passed legislation, which established the Delaware Local Government Retirement Investment Pool (DELRIP) in the custody of the Board of Pension Trustees to allow local governments the option to pool their pension assets with the Delaware Public Employees' Retirement System. The DELRIP is an external investment pool that allows local governments to maximize their rate of return and reduce administrative expenses related to the investment of funds. There were three participating entities in the DELRIP as of June 30, 2003, which comprises the pool in its entirety.

The DELRIP is subject to the oversight of the System's Investment Committee and not subject to the regulatory oversight of the SEC. The System has not provided or obtained any legal binding guarantees during the year to support the value of shares. The fair value of the portion in the pool is the same as the value of the Master Trust shares.

**Post-Retirement Health Insurance Premium Fund**

In June 2000, the State of Delaware passed legislation which established a mechanism for funding the State's retiree health care costs for covered employees in the State Employees' Pension Plan. The mechanism allows the State to appropriate employer contributions to a separate fund managed by the Board. These funds will be used to pay the State's cost for health care premiums. Funding levels are set annually by the Delaware State Legislature as a part of the budget process. Funding began in July 2001 in the amount of 0.65% of payroll. Funding for FY2003 was 0.37% of payroll. Funding during FY2004 has been suspended.

The DPERS issues a publicly available financial report that includes financial statements and required supplementary information for each of the individual plans and funds identified above. The financial report may be obtained by writing to the

State Board of Pension Trustees and Office of Pensions, McArdle Building, Suite #1, 860 Silver Lake Boulevard, Dover, Delaware 19904-2402.

### ***Plan Membership, Benefit and Contribution Provisions***

A description of the individual plans including eligibility provisions, types of benefits and contribution requirements are set forth in general terms below and on the following pages. Detailed information regarding these plans is available in the Delaware Code and in the Rules and Regulations of the Board of Pension Trustees.

#### **State Employees' Pension Plan**

Plan Description and Eligibility: The State Employees' Pension Plan is a cost-sharing multiple employer defined benefit plan that covers virtually all full-time or regular part-time employees of the State, including employees of other affiliated entities.

Service Benefits: Final average monthly compensation multiplied by 2.0% and multiplied by years of credited service prior to January 1, 1997 plus final average compensation multiplied by 1.85% and multiplied by years of credited service after December 31, 1996, subject to minimum limitations. For this plan, final average monthly compensation is the monthly average of the highest three years of compensation.

Vesting: Five (5) years of credited service.

Retirement: Age 62 with five (5) years of credited service; age 60 with 15 years of credited service; or after 30 years of credited service.

Disability Benefits: Same as Service Benefits. Employee must have five (5) years of credited service.

Survivor Benefits: If employee is receiving a pension or is active with at least five (5) years of credited service, eligible survivor receives 50% (or 75% with 3% reduction of benefit) of the benefit the employee would have received at age 62.

#### Contributions:

Employer - determined by Board of Pension Trustees.

Employee - 3% of earnings in excess of \$6,000.

Death Benefit: \$7,000 per member.

#### **Special Pension Plan**

Plan Description and Eligibility: The Special Pension Plan is a cost sharing multiple employer defined benefit plan that covers benefits granted to certain retirees or groups of retirees through legislation passed by the General Assembly.

Service Benefits: Defined by special legislation.

Vesting: Not applicable.

Retirement: Not applicable.

Disability Benefits: Not applicable.

Survivor Benefits: Same as State Employees' Plan.

Contributions: Employer contributions are actuarially determined and fully funded in advance by the General Assembly.

Death Benefit: \$7,000 per member.

#### **New State Police Pension Plan**

Plan Description and Eligibility: The New State Police Pension Plan is a single-employer defined benefit plan that covers all State police officers appointed on or after July 1, 1980.

Service Benefits: 2.5% of final average monthly compensation multiplied by years of credited service up to 20 years, plus 3.5% of final average monthly compensation multiplied by years of service in excess of 20 years. For this plan, final monthly average compensation is the monthly average of the highest three consecutive years of compensation.

Vesting: Ten (10) years of credited service.

Retirement: Age 62 with ten (10) years of credited service; age plus credited service (but not less than 10 years) equals 75; or 20 years of credited service.

Disability Benefits: Duty - Total Disability - 75% of compensation plus 10% for each dependent not to exceed 25% for all dependents. Partial Disability - calculated the same as Service Benefits subject to minimum 50% of final average. Ordinary - same as Benefits.

Survivor Benefits: If employee is receiving a pension, the eligible survivor receives 50% of pension; if employee is active, eligible survivor receives 50% of compensation.

Contributions:

Employer - determined by Board of Pension Trustees.

Employee - 7% of compensation.

Death Benefit: \$7,000 per member.

#### **Judiciary Pension Plans (Closed and Revised)**

Plan Description and Eligibility: The Closed Judiciary Pension Plan is a single-employer defined benefit plan that covers members of State Judiciary appointed before July 1, 1980.

The Revised Judiciary Pension Plan is a single-employer defined benefit plan that covers members of State Judiciary appointed on or after July 1, 1980 or members appointed before July 1, 1980 who accept the provisions of this Plan.

Assets of one Plan can be used to satisfy the liabilities of the other Plan.

Service Benefits:

Closed – Three percent (3%) of average annual compensation multiplied by years of credited service, subject to minimum and maximum limitations.

Revised - 1/24th of final average monthly compensation multiplied by years of service up to 12 years, plus 1/48th of final average monthly compensation, multiplied by years of service from 13 to 24 years, subject to maximum limitations.

For this plan, final average monthly compensation is the monthly average of the highest three consecutive years of compensation.

Vesting: 12 years of credited service.

Retirement:

Closed - Age 65 with 12 years of credited service, or any age with 24 years of credited service.

Revised - Age 62 with 12 years of credited service, or any age with 24 years of credited service.

Disability Benefits: Same as Service Benefits

Survivor Benefits:

Closed - If employee is receiving a pension, then eligible survivor receives 2/3 of pension; if employee is active with 12 years of credited service, eligible survivor receives 2/3 of pension the employee would have been eligible to receive.

Revised - If employee is receiving a pension, then eligible survivor receives 1/2 of pension (2/3 with 3% reduction); if employee is active, eligible survivor receives 2/3 of pension the employee would have received at age 62.

Contributions:

Employer - determined by Board of Pension Trustees.

Employee:

- ◆ Closed - \$500 per year for the first 25 years of service.
- ◆ Revised - 3% of earnings that exceed \$6,000 per year, plus 2% of earnings that exceed the Social Security Wage Base for the first 24 years of service.

Death Benefit: Not applicable.

#### **County and Municipal Police/Firemen's Pension Plans (FICA & Non-FICA)**

Plan Description and Eligibility: County and Municipal Police/Firemen's Pension Plan, both FICA and Non-FICA, are cost-sharing multiple employer defined benefit plans that cover police officers/ firemen employed by a county or municipality of the State which have become part of the Plan.

Service Benefits: 1/40th of final average monthly compensation multiplied by years of credited service, subject to limitations. For this plan, final average monthly compensation is the monthly average of the highest three consecutive years of compensation.

Vesting: Ten (10) years of credited service.

Retirement: Age 62 with ten (10) years of service; age plus credited service (but not less than 10 years) equals 75; or 20 years of credited service.

Disability Benefits:

Duty - Total Disability - 75% of final average compensation plus 10% for each dependent not to exceed 25% for all dependents; Partial Disability - calculated the same as Service benefits.

Ordinary - Same as Service Benefits.

Survivor Benefits: If employee is receiving a pension, then eligible survivor receives 50% of pension; if employee is active, eligible survivor receives 50% of pension the employee would have received at age 62.

Contributions:

Employer - determined by Board of Pension Trustees.

Employee - FICA covered - 5% of compensation.

Non-FICA covered - 7% of compensation.

Death Benefit: Not applicable.

**County and Municipal Other Employees' Pension Plan**

Plan Description and Eligibility: County and Municipal Other Employees' Pension Plan is a cost-sharing multiple employer defined benefit plan that covers employees other than police officers and fire fighters of counties or municipalities which have become part of the Plan.

Service Benefits: 1/60th of final average monthly compensation multiplied by years of credited service, subject to maximum limitations. For this plan, final average monthly compensation is the monthly average of highest five years of compensation.

Vesting: Five (5) years of credited service.

Retirement: Age 62 with five (5) years of credited service, age 60 with 15 years of credited service, or 30 years of credited service.

Disability Benefits: Same as Service Benefits. Employee must have five (5) years of credited service.

Survivor Benefits: If employee is receiving a pension or is active with at least five (5) years of credited service, then eligible survivor receives 50% of pension the employee would have received at age 62.

Contributions:

Employer - determined by Board of Pension Trustees.

Employee - 3% of earnings in excess of \$6,000, plus 2% of earnings that exceed the Social Security Wage Base.

Death Benefit: Not applicable.

**Volunteer Firemen's Pension Plan**

Plan Description and Eligibility: The Volunteer Firemen's Pension Plan is a cost-sharing multiple employer defined benefit plan which covers all actively participating volunteers of fire departments, ladies auxiliaries, or ambulance organizations within the State of Delaware.

Service Benefits: \$5 multiplied by years of credited service (not to exceed 25 years) per month.

Vesting: Ten (10) years of credited service.

Retirement: Age 60 with 10 years credited service.

Disability Benefits: Not applicable.

Survivor Benefits: Not applicable.

Contributions:

- ◆ Employer - determined by Board of Pension Trustees.
- ◆ Volunteer Member - \$60 per member per year.

Death Benefit: Not applicable.

**Diamond State Port Corporation Pension Plan**

Plan Description and Eligibility: The Diamond State Port Corporation Pension Plan is a single-employer defined benefit plan that covers all employees of the Diamond State Port Corporation.

Service Benefits: 1.75% of final average monthly compensation multiplied by the years of credited service (not to exceed 30 years). For this plan, final average monthly compensation is the monthly average of the highest consecutive five years of compensation within the last ten years of employment.

Vesting: Five (5) years of credited service.

Retirement: Age 65 with five (5) years of credited service, or age (not less than 55 years) plus credited service equals 90.

Disability Benefits: Same as Service Benefits. Employee must have 15 years of credited service.

Survivor Benefits: If employee is receiving a pension or is active with at least 15 years of credited service, then eligible survivor receives 50% of pension the employee would have received at age 65.

Contributions:

- ◆ Employer - determined by Board of Pension Trustees.
- ◆ Employee - 2% of compensation.

Death Benefit: Not applicable.

**Closed State Police Pension Plan**

Plan Description and Eligibility: The Closed State Police Pension Plan is a single-employer defined benefit plan that covers all State police officers appointed before July 1, 1980.

Service Benefits: 50% of monthly salary.

Vesting / Retirement: 20 years of credited service or age 55.

Disability Benefits: Duty - 75% of salary. Ordinary - 50% of salary.

Survivor Benefits: If employee is active or is receiving a service or service-related disability pension, the eligible survivor receives 75% of pension; if employee is receiving a non-service related disability pension, eligible survivor receives 50% of pension.

Contributions:

Employer - The Closed State Police Plan is funded on a pay-as-you-go basis.

Employee - 5% of salary with 20 years or less of credited service; 2% of salary with over 20 years credited service.

Death Benefit: \$7,000 per member.

**Historical Trend Information**

Historical trend information for the current year and the preceding five years designed to provide information about progress made by the individual plans in accumulating sufficient assets to pay benefits when due is presented in the separately issued financial report of the DPERS.

**Pension Investments**

As of June 30, 2003, the following managers have investments at fair value in excess of 5% of the DPERS net assets held in trust for pension benefits:

	Fair Value (Expressed in Thousands)
Mellon Capital Asset Allocation Fund	\$ 1,044,553
Mellon Capital Global Asset Allocation Fund	664,009
Lincoln Capital	382,095
T. Rowe Price High Yield Bonds	296,542
Loomis Sayles	<u>252,598</u>
Total	<u><u>\$ 2,639,797</u></u>

**Employer Contributions**

The table on the following page provides an analysis of Employer Contributions for the current year and the preceding two years. Totals for State Employees', New State Police and Judiciary plans do not include Post-Retirement Increase Fund contributions. Employer contributions of all Plans administered by the System are actuarially determined, with the exception of the Closed State Police Plan, which remains pay-as-you-go. The table presents the annual required contributions expressed in dollars and as a percentage of amount actually contributed.

**Schedule of Employer Contributions**  
(Expressed in Thousands)

Plan	Fiscal Year Ended	Annual Required Contributions	Percentage Contributed
State Employees' *	6/30/03	\$40,175	100.0%
	6/30/02	18,148	100.0%
	6/30/01	20,542	100.0%
Special	6/30/03	- 0 -	N/A
	6/30/02	- 0 -	N/A
	6/30/01	- 0 -	N/A
Closed State Police	6/30/03	\$27,654	68.0%
	6/30/02	27,831	64.0%
	6/30/01	27,709	62.0%
New State Police *	6/30/03	\$ 2,786	100.0%
	6/30/02	2,476	100.0%
	6/30/01	2,480	100.0%
Judiciary *	6/30/03	\$ 1,342	100.0%
	6/30/02	1,399	100.0%
	6/30/01	1,333	100.0%
Diamond State Port Corporation	6/30/03	\$ 333	100.0%
	6/30/02	341	100.0%
	6/30/01	386	100.0%
County and Municipal Police/ Firemen's	6/30/03	\$ 2,931	100.0%
	6/30/02	2,779	100.0%
	6/30/01	2,664	100.0%
County and Municipal Other Employees	6/30/03	\$ 248	100.0%
	6/30/02	92	100.0%
	6/30/01	165	100.0%
Volunteer Firemen's	6/30/03	\$ 667	100.0%
	6/30/02	586	100.0%
	6/30/01	618	100.0%

\* Totals do not include Post-Retirement Increase Fund Contributions.

**Annual Pension Cost, Actuarial Methods and Assumptions**

The table on the following page provides information concerning annual pension costs. Annual pension cost for each plan, except the Closed State Police Plan, is equal to the respective plan's required and actual contributions for the fiscal year ended June 30, 2003.

**Annual Pension Cost, Actuarial Methods and Assumptions**  
(Expressed in Thousands)

Plan	State Employees'	Special	Closed State Police	New State Police	Judiciary
Annual Pension Cost	\$ 40,175	N/A	\$ 27,654	\$ 2,786	\$ 1,342
Actuarial Valuation Date	6/30/03	6/30/03	6/30/03	6/30/03	6/30/03
Actuarial Cost Method	Entry Age Normal	N/A	Entry Age Normal	Entry Age Normal	Entry Age Normal
Amortization Method	Level Percent Closed for Plan Bases & Open for Aggregate Gain/Loss	N/A	Level Percent Closed	Level Percent Closed	Level Percent Closed
Remaining Amortization Period	14.43 years	N/A	33 years	17 years	18 years
Asset Valuation Method	5-year Smoothed Market	5-year Smoothed Market	5-year Smoothed Market	5-year Smoothed Market	5-year Smoothed Market
Actuarial Assumptions:					
Investment rate of return	8.50%	8.50%	8.50%	8.50%	8.50%
Projected Salary Increases*	6.00%-9.89%	N/A	7.00%	7.00%	5.50%
Cost-of-living adjustments	Ad Hoc	Ad Hoc	Based on CPI	Ad Hoc	Ad Hoc

Plan	Diamond State Port Corporation	County & Municipal Police & Fireman's	County & Municipal Other Employees	Volunteer Firemen's
Annual Pension Cost	\$ 341	\$ 2,779	\$ 92	\$ 586
Actuarial Valuation Date	6/30/03	6/30/03	6/30/03	6/30/03
Actuarial Cost Method	Entry Age Normal	Entry Age Normal	Entry Age Normal	Entry Age Normal
Amortization Method	Level Percent Closed	Level Percent Open	Level Percent Open	Level Dollar Closed
Remaining Amortization Period	19 years	10 years	10 years	24 years
Asset Valuation Method	5-year Smoothed Market	5-year Smoothed Market	5-year Smoothed Market	5-year Smoothed Market
Actuarial Assumptions:				
Investment rate of return	8.50%	8.50%	8.50%	8.50%
Projected Salary Increases*	5.00%	7.00%	7.00%	N/A
Cost-of-living adjustments	Ad Hoc	Ad Hoc	Ad Hoc	Ad Hoc

- Projected Salary Increases include an inflation component of 5% for all Plans.

#### Funding Status and Progress

The amount shown below as "actuarial accrued liability" is a measure of the difference between the actuarial present value of future plan benefits, and the actuarial present value of future normal cost. It is intended to help readers assess the individual plans' funding status on a going-concern basis and assess progress made in accumulating sufficient assets to pay benefits when due.

## FUNDING STATUS AND PROGRESS

(Expressed in Thousands)

Plan	Actuarial Valuation Date	(1) Actuarial Value of Assets	(2) Actuarial Accrued Liability (AAL)	(3) Unfunded AAL		(4) Funded Ratio (1) / (2)	(5) Annual Covered Payroll	(6) UAAL/ (Excess) as % of Covered Payroll (3) / (5)
				AAL	(UAAL) (Excess of Assets over Liabilities) (2) - (1)			
State Employees'	6/30/03	\$ 5,125,442	\$ 4,794,944	\$ (330,498)	106.9%	\$ 1,355,800	(24.4%)	
	6/30/02	4,956,156	4,521,732	(434,424)	109.6%	1,351,112	(32.2%)	
	6/30/01	4,759,031	4,232,244	(526,787)	112.4%	1,270,632	(41.5%)	
Special	6/30/03	\$ 1,009	\$ 768	\$ (241)	131.4%	N/A	N/A	
	6/30/02	1,832	742	(1,090)	246.9%	N/A	N/A	
	6/30/01	1,866	993	(873)	187.9%	N/A	N/A	
Closed State Police +	6/30/03	\$ 2,322	\$ 318,250	\$ 315,928	0.7%	\$ 2,869	11,011.8%	
	6/30/02	2,036	318,687	316,651	0.6%	3,105	10,198.1%	
	6/30/01	1,749	306,194	304,445	0.6%	3,247	9,376.2%	
New State Police	6/30/03	\$ 120,457	\$ 106,272	\$ (14,185)	113.3%	\$ 31,778	(44.6%)	
	6/30/02	109,615	91,928	(17,687)	119.2%	30,281	(58.4%)	
	6/30/01	99,138	80,040	(19,098)	123.9%	25,624	(69.1%)	
Judiciary	6/30/03	\$ 30,961	\$ 31,646	\$ 685	97.8%	\$ 6,112	11.2%	
	6/30/02	29,049	30,122	1,073	96.4%	7,329	14.6%	
	6/30/01	27,231	29,635	2,404	91.9%	6,371	37.7%	
Diamond State Port Corporation	6/30/03	\$ 7,328	\$ 7,056	\$ (272)	103.9%	\$ 8,636	(3.1%)	
	6/30/02	6,675	6,617	(58)	100.9%	9,354	(0.6%)	
	6/30/01	6,044	5,618	(426)	107.6%	8,788	(4.8%)	
County and Municipal Police/ Firemen's (FICA) *	6/30/03	\$ 41,228	\$ 36,698	\$ (4,530)	112.3%	\$ 24,128	(18.8%)	
	6/30/02	35,053	30,344	(4,709)	115.5%	21,342	(22.1%)	
	6/30/01	29,389	26,465	76	99.3%	19,605	1.1%	
County and Municipal Other Employees'	6/30/03	\$ 3,632	\$ 3,332	\$ (270)	108.1%	\$ 6,209	(4.3%)	
	6/30/02	3,033	2,816	(217)	107.7%	2,545	(8.5%)	
	6/30/01	2,794	2,962	168	94.3%	2,292	7.3%	
Volunteer	6/30/03	\$ 9,644	\$ 15,619	\$ 5,975	61.7%	4,933	\$ 1,211	
	6/30/02	9,333	14,940	5,607	62.5%	4,856	1,155	
	6/30/01	9,022	13,837	4,815	65.2%	4,769	1,010	

\* In all years, the Actuarial Accrued Liability is reported on the Frozen Initial Liability Cost Method.

+ The Closed State Police Pension Plan is a pay-as-you-go plan.

++ Not expressed in thousands.

## NET PENSION OBLIGATION (NPO)

The Annual Pension Cost (APC) and Net Pension Obligation (NPO) for the Closed State Police Plan for the fiscal years ended June 30, 2003, 2002, and 2001 are presented on the following page.

**NET PENSION OBLIGATION (NPO)**

	Fiscal Year Ended June 30, 2003	Fiscal Year Ended June 30, 2002	Fiscal Year Ended June 30, 2001
(Expressed in Thousands)			
Annual Required Contribution	\$ 27,654	\$ 27,831	\$ 27,709
Interest on Net Pension Obligation	6,099	5,257	4,374
Adjustment to Annual Required Contribution	<u>(6,265)</u>	<u>(5,371)</u>	<u>(4,448)</u>
Annual Pension Cost	27,488	27,717	27,635
Less Contributions Made	<u>(18,667)</u>	<u>(17,805)</u>	<u>(17,245)</u>
Increase in Net Pension Obligation	8,821	9,912	10,390
Net Pension Obligation, Beginning of Year	<u>71,756</u>	<u>61,844</u>	<u>51,454</u>
Net Pension Obligation, End of Year	<u><u>\$ 80,577</u></u>	<u><u>\$ 71,756</u></u>	<u><u>\$ 61,844</u></u>

**Post-Retirement Health Care Benefits**

In addition to the pension benefits, the State provides post-retirement health care benefits, in accordance with State statutes, to all employees who retire from the State after meeting the eligibility requirements. The eligibility requirements are the same as those of the pension plans. Currently, 17,617 retirees meet those eligibility requirements. The State reimburses substantially all validated claims for medical and hospitalization costs incurred by pre-Medicare retirees and their dependents. The State also pays a fixed amount of \$292.32 per month for a Medicare supplement for each retiree eligible for Medicare. Expenditures for post-retirement health care benefits are recognized as retirees report claims. During the year, General Government expenditures of \$68,050,812 were recognized in the General Fund for post-retirement health care.

**Deferred Compensation Plan**

The State offers its permanent employees a deferred compensation plan created in accordance with Internal Revenue Code Section 457. The Plan, available to all State of Delaware employees, permits them to defer a portion of their salary to future years. Participation in the Plan is optional. The deferred compensation is not available to employees until termination, retirement, death or unforeseeable emergency. The Plan changed in January 2001 to include an employer-matching contribution. The State will match the first \$10 per pay contributed by employees who have worked for the State at least for six months. Maximum annual State match per

employee is \$260. The State contribution totaled \$1,787,603 million for the year ended June 30, 2003.

### ***Delaware Transportation Authority***

Generally, employees of the Delaware Transportation Authority are covered under DPERS. The Delaware Transit Corporation (DTC), a subsidiary public corporation of the Delaware Transportation Authority, has three single-employer defined benefit plans consisting of the Salaried Office Pension Plan, the Contributory Pension Plan and the Delaware Transit Corporation (DTC) Pension Plan. Each plan provides retirement, disability and death benefits to plan members and beneficiaries. Each plan issues a publicly available financial report that includes financial statements and required supplementary information. Those reports may be obtained by writing or calling the Delaware Transit Corporation at 900 Public Safety Boulevard, Dover, DE 19901.

The trustees of each plan establish and may amend the contribution requirements of plan members and DTC. The most recent information available for DTC's annual pension cost and related information for each plan is as follows (note - the current year information is not available for each plan):

#### **Annual Pension Cost, Actuarial Methods and Assumptions**

(Expressed in Dollars)

Plan	Salaried Office Plan	DTC Pension Plan	Contributory Pension Plan
Contribution Rates:			
Employer	Actuarially Determined	Actuarially Determined	3.00/ 5.00%
Participants	1.00%	N/A	3.00/ 5.00%
Annual Pension Cost	\$ 42,192	\$ 693,100	\$ 563,584
Contributions Made	\$ -	\$ 545,328	\$ 346,939
Actuarial Valuation Date	7/1/2001	7/1/2002	01/01/2002
Actuarial Cost Method	Projected Unit Credit Cost	Frozen Initial Liability	Entry Age Normal
Remaining Amortization Period	N/A	23	N/A
Asset Valuation Method	Market	Market	Smooth
Actuarial Assumptions:			
Investment rate of return	7.00%	7.50%	7.00%
Projected Salary Increases	5.00%	4.50%	4.00%

N/A = Not Applicable

Effective January 1, 2003, the Contributory Pension Plan contribution and employer match percentages increased to 5% for North District Fixed Route operators and maintenance personnel. The contribution and employer match percentages for Paratransit operators and South District Fixed Route operators will increase to 5% effective July 1, 2003.

The component of the annual pension cost of the DTC Pension Plan for the year ended June 30, 2001 included an annual required contribution of \$494,329, interest on the net pension obligation of \$9,663 and amortization of the net pension obligation of \$10,752.

As of January 1, 2001, significant changes were made to the provisions of the Contributory Plan. The changes included an increase in benefits received by retirees, the addition of Paratransit operators and South District Fixed Route operators to the Plan, and increased benefits paid to beneficiaries of certain deceased active participants.

The tables on the following page provide required supplementary information concerning funding policies and annual pension costs. Annual pension cost is equal to the respective plans required and actual contributions.

### Funding Status and Progress

(Expressed in Dollars)

Plan	Actuarial Valuation Date	(a) Actuarial Value of Assets	(b) Actuarial Accrued Liability (AAL)	(c) Unfunded AAL (UAAL) (Excess of Assets over AAL) (a-b)	(d) Funded Ratio (a / b)	(e) Annual Covered Payroll	(f) UAAL (Excess) as % of Covered Payroll (c / e)
Salaried Office Pension Plan	07/01/2001	\$ 2,606,031	\$ 1,075,445	\$ 1,530,586	242.32%	\$ 723,961	211.42%
	07/01/2000	\$ 2,859,157	\$ 1,049,467	\$ 1,809,690	272.44%	\$ 702,499	257.61%
	07/01/1999	\$ 2,498,738	\$ 1,054,050	\$ 1,444,688	237.06%	\$ 685,788	210.66%
DTC Pension Plan	07/01/2002	\$ 4,355,464	\$ 4,727,035	\$ (371,571)	92.14%	\$ 7,690,602	(4.83%)
	07/01/2001	\$ 3,717,396	\$ 4,097,808	\$ (380,418)	90.72%	\$ 7,680,779	(4.95%)
	07/01/2000	\$ 3,465,024	\$ 3,840,040	\$ (375,016)	90.23%	\$ 6,868,150	(5.46%)
Contributory Pension Plan	01/01/2002	\$ 13,207,197	N/A	N/A	N/A	\$ 14,754,161	N/A
	01/01/2001	\$ 14,294,487	N/A	N/A	N/A	\$ 12,236,975	N/A
	01/01/2000	\$ 14,903,156	N/A	N/A	N/A	\$ 7,449,948	N/A

### Three-Year Trend Information

(Expressed in Dollars)

	Plan Year Ended	Contribution Made	Annual Pension Cost (APC)	Percent Of APC Contributed	Net Pension Obligation
Salaried Pension Plan	06/30/2002	\$ - 0 -	\$ 42,192	-	\$ -
	06/30/2001	\$ 5,977	\$ 40,950	14.60%	-
	06/30/2000	\$ 10,379	\$ 42,440	24.26%	-
DTC Pension Plan	06/30/2003	\$ 545,328	\$ 693,100	78.68%	-
	06/30/2002	\$ 975,255	\$ 641,054	152.13%	-
	06/30/2001	\$ 520,000	\$ 493,240	105.43%	102,079
Contributory Pension Plan	12/31/2002	\$ 346,939	\$ 563,584	61.56%	-
	12/31/2001	\$ 326,681	\$ 256,801	127.21%	-
	12/31/2000	\$ 202,851	\$ 7,614	2,664.18%	-

N/A = Not Applicable

### Plan Merger

Effective July 1, 2002, the Salaried Office Pension Plan was merged into the Contributory Pension Plan.

### Component Units

#### ***Delaware State Housing Authority (DSHA)***

All full time or regular part-time State employees of the DSHA are covered under the DPERS plan, including post-retirement health care. For the year ended June 30, 2003, the Authority was required to contribute 9.47% of covered payroll to the

DPERS plan. The Authority's contribution to the DPERS for the year ended June 30, 2003 was \$181,215, equal to the required contribution for the year. Full-time non-state employees of the Public Housing Program and Section 8 Program are covered by the "Housing-Renewal and Local Agency Retirement Plan," a defined contribution plan funded by contributions from both the Authority and the covered employees. Non-State employees of the DSHA are required to contribute 3.5% of their base salary. The DSHA's contribution rate of annual salaries is 9.47% for the period ended June 30, 2003. Total contributions made for the year amounted to \$309,896 of which \$226,060 and \$83,836 was contributed by the DSHA and its employees, respectively.

The Authority provides post-retirement health care benefits in accordance with Authority General Order Number 325, to all non-state employees who retire from the Authority after meeting the eligibility requirements. Currently, five retirees meet those eligibility requirements. Health care benefits paid during fiscal 2003 totaled \$18,717. The set aside balance, which is held in the State of Delaware investment pool, totaled \$259,024 as of June 30, 2003. The Authority decided for fiscal 2003 the current set aside balance was sufficient and did not set aside additional funds.

***Diamond State Port Corporation and Delaware State University***

Generally, employees of these discretely presented component units are covered under DPERS.

## NOTE 15. AFFILIATED ORGANIZATIONS

### **Delaware State Lottery**

#### ***Multi-State Lottery Association***

The Multi-State Lottery Association (MUSL) was established in 1987. Its members include the Delaware State Lottery, an enterprise fund, and twenty-four other state lotteries. MUSL is governed by a Board of Directors, of which each member lottery is represented. The Board's responsibilities are to initiate, promulgate, and administer a multi-state lottery game for the mutual benefit of the member lotteries.

The total amount held as a deposit by the MUSL as of June 30, 2003, was \$1,794,979. This amount, reported by the Lottery as restricted assets and as liabilities payable from restricted assets, represents funds to be paid to the State of Delaware, upon ending the Powerball game, if MUSL is not required to use a portion of the Lottery's reserves held by MUSL.

Complete separate financial statements for MUSL may be obtained at the Multi-State Lottery Association, 1701 48<sup>th</sup> Street, Suite 210, West Des Moines, IA 50266-6723.

**DelDOT Fund*****Delaware Transportation Authority***

During fiscal year 1998, Expressways Operations/Toll Administration entered into a regional electronic toll collection system consortium. The consortium includes an agreement among member jurisdictions to share in the potential revenues and costs associated with the construction, financing and operations of an electronic toll collection customer service center (CSC). The CSC collects tolls and violation fees from motorists in each member jurisdiction and remits to each jurisdiction their share of tolls collected based upon actual road usage.

The CSC will also lease fiber optic transmission lines to the public, which will generate rental income to the CSC. The rental income and violation fees are expected to exceed the costs associated with operating the CSC. In the event that the CSC generates costs in excess of revenues during its ten-year operating term, each member jurisdiction will be obligated to finance their share of this operating deficit under the terms of a True-Up Agreement, which each member jurisdiction has signed.

At June 30, 2003 and June 30, 2002, a True-Up study revealed a probable liability relating to the above True-Up Agreement. While the exact amount of this liability, due in March 2008, is not known, a reasonable estimate based on information currently available is \$12,000,000 and \$6,469,204, respectively. These amounts have been discounted to their present value based on the average investment rate of the Trust Fund at fiscal year end. The discounted amounts of \$10,913,837 and \$5,767,330 appear in other liabilities at June 30, 2003 and 2002, respectively. Recognition of this expenditure reduces the fund balance at June 30, 2003 and 2002 by \$5,146,508 and \$3,805,267, respectively. To accumulate funds for future payment of this contingency, the Delaware Transportation Authority is earmarking funds within its operating budget.

On March 25, 2003, the Trust Fund withdrew from the regional consortium that was governing the E-Zpass operation jointly with three agencies from other states. November 30, 2003 is designated as the final transition date. As of this date, the Trust Fund will be operating its E-Zpass system independent of the regional consortium. According to the withdrawal agreement, the Trust Fund will receive approximately \$7.6 million at the completion of the fiber optic system. The Trust Fund has agreed to pay \$1.9 million in costs over six months and its share of the True-Up due in March 2008.

Audited statements for the CSC may be obtained from Adesta Transportation Inc., 200 East Park Drive, Suite 600, Mt. Laurel, New Jersey 08054.

## **NOTE 16. CONTINGENCIES**

Various parties have made claims against the State in amounts, which in the aggregate, could be material to the financial statements of the State. The State recognized \$5.7 million as General Government accrued liabilities in the General Fund for pending litigation settlements for the fiscal year ended June 30, 2003. In the opinion of the Attorney General of the State however, the remaining cases are either subject to a valid defense or are not expected to result in an impairment of the State's financial position. Management believes the settlement in aggregate of claims outstanding will not result in amounts material to the financial statements of the State.

The State receives significant financial assistance from the Federal Government in the form of grants and entitlements. The right to these resources is generally conditioned upon compliance with terms and conditions of the grant agreements and applicable federal regulations, including the expenditure of the resources for eligible purposes. Substantially all grants are subject to financial and compliance audits by the grantors. Any disallowances as a result of these audits become a liability of the State. The State does not believe that the liabilities that may result from such audits for periods through June 30, 2003 would have a material effect on its financial position or the results of operations.

The State Lottery has discharged its primary responsibility for payment of annual installments (generally 14 to 20 years) to winners of jackpots greater than \$150,000 by purchasing annuities from private insurance companies. The Lottery remains liable for future periodic payments of deferred prize obligations (approximately \$18.9 million at June 30, 2003) in the event that the annuity issuers default on their obligations.

## **NOTE 17. SUBSEQUENT EVENT**

On August 14, 2003, the State issued \$121.0 million of general obligation bonds. These serial bonds mature between July 1, 2004 and July 1, 2023 and bear average interest rates of 3.86%. Proceeds were used to provide funds for capital improvements to various State facilities.

## **NOTE 18. PRIOR PERIOD ADJUSTMENT**

### ***DELDOT Fund***

A prior period adjustment was made to record \$2,366,000 net bond premium/discount for DELDOT 2001 and 2002 bond issues, restating net assets at June 30,2002 from \$2,803,953,000 to \$2,806,319,000.

**Component Units*****Delaware State Housing Authority***

Beginning net assets of the Authority as of June 30, 2002 were restated for prior period adjustments. The adjustments principally relate to reclassification of investments to mortgages receivable and the related write-off of unrealized gains and the write-off of prior year developers contributions. Net assets of the Authority as of June 30, 2002 have been restated from \$223,855,000 to \$219,131,000.

***Delaware Charter Schools***

Beginning net assets of the Delaware Charter Schools as of June 30, 2002 were restated for a prior period adjustment. Net assets increased by \$5,130,000, resulting from adjustments as the entities were audited for the first time. The majority of the adjustments related to recording capital assets net of related debt. Net assets of the Delaware Charter Schools as of June 30, 2002 were restated from \$3,563,000 to \$8,693,000.

## NOTES TO REQUIRED SUPPLEMENTARY INFORMATION

### BUDGETARY REPORTING

#### BUDGETARY BASIS VS. GAAP

While GAAP requires the use of the fund structure described in Note 1C, the State's budget system uses only a General Fund and a Special Fund, each of which uses the basis of accounting described below. Additionally, the activities of certain component units of the State, which are not substantially supported by tax revenues, are not included in the budget data. Reconciliation of the accrual adjustments necessary to convert budgetary basis information to GAAP basis is presented in Required Supplementary Information.

The State Constitution requires the Governor to prepare and submit to the General Assembly a State budget for the ensuing year. The State budgets and controls its financial activities on the cash basis of accounting. In compliance with State law, the State records its financial transactions in either of two major categories -- the General Fund or the Special Fund. References to these two funds in this document include the terms "budgetary" or "budgetary basis" to differentiate them from the GAAP funds of the same name which encompass different funding categories. The General Assembly enacts the budget through the passage of specific line-item appropriations by department, the legal level of budgetary control, the sum of which must not exceed 98 percent of the estimated revenues and available unencumbered cash balance from the prior year pursuant to the State Constitution. The Governor has the power to approve or veto each appropriation passed by the General Assembly.

The budgetary General Fund provides for the cost of the State's general operations and is credited with all tax and other revenue of the State not dedicated to budgetary Special Funds. Certain Special Funds are subject to appropriation, referred to herein as budgetary or appropriated Special Funds. Unexpended appropriations at year-end are available for subsequent expenditure to the extent that they have been encumbered at that date or legislatively extended for another year. Budget data represents original appropriations modified by interdepartmental transfers, supplemental, continuing, and carried-over encumbered appropriations. Subsequent modifications to the budget require the approval of the Controller General and the Budget Director. Detailed information regarding individual department budgets and the compliance with the legal level of budgetary control is presented on the following pages.

Encumbrance accounting is employed in governmental funds. Encumbrances (e.g., purchase orders) outstanding at year-end do not constitute expenditures or liabilities and are reported as reservations of fund balances because the commitments will be honored during the subsequent year.

The Budget schedules in Required Supplemental Information a) reflect the adjustments made to increase the Special Fund's excess of revenues over expenditures for certain revenue sources not previously recognized; b) eliminates the net activity of certain operations that are accounted for within both the Special Fund and also in the separate accounts of certain component units or agency funds that are not principally accounted for within the Special Fund; and c) presents the accrual adjustments necessary to convert budgetary basis information to GAAP basis.

### **Statutory/Budgetary Presentation**

The Budgetary Comparison Schedule – Budget to Actual (Non-GAAP Budgetary Basis) presented on the following pages provides a comparison of the original and final legally adopted budget with actual data on a budgetary basis.

The original budget and related estimated revenues represent the spending authority enacted into law by the appropriations bill as of June 30, 2003, and does not include encumbrances and multi-year projects budgetary carry-forwards from the prior fiscal year. Generally accepted accounting principles (GAAP) require that the final legal budget be reflected in the "final budget" column, therefore updated revenue estimates available for appropriations as of the last DEFAC meeting in June 2003, as well as the amounts shown in the original budget, are reported. The final legal budget also reflects encumbrances and multi-year projects budgetary carry-forwards from the prior fiscal year.

The following table represents the Budgetary Statement of Revenues, Expenditures and Changes in Fund Balance – General and Special Funds. Also included is a schedule showing the Budgetary Fund balance designations. Of the \$464.0 million Budgetary General Fund Balance, \$136.5 million is reserved for the Budget Reserve Account and \$173.3 million is designated as continuing and encumbered appropriations. The \$154.2 million of undesignated fund balance, for the most part is not available for new spending as these funds have been committed based on State statutes.

**Budgetary Comparison Schedule - General Fund**  
**Budget to Actual (Non-GAAP Budgetary Basis)**  
**For the Fiscal Year Ended June 30, 2003**  
(Expressed in Millions)

	Budgeted Amounts		Actual Amounts	Variance with Final Budget
	Original	Final		
<b>REVENUES</b>				
Personal Income Taxes	\$ 739.3	\$ 706.9	\$ 710.3	\$ 3.4
Business Taxes	990.6	1,086.9	1,104.3	17.4
Other Taxes	100.5	141.2	162.6	21.4
License, Permits, Fines and Fees	154.9	160.6	116.5	(44.1)
Interest Earnings	23.4	20.0	20.8	0.8
Lottery Sales	223.7	213.0	213.0	0.0
Other Non-Tax Revenue	90.6	111.2	108.9	(2.3)
<b>Total Revenues</b>	<b>2,323.0</b>	<b>2,439.8</b>	<b>2,436.4</b>	<b>(3.4)</b>
<b>Expenditures</b>				
General Government	237.7	327.6	241.0	(86.6)
Health and Children's Services	725.8	770.1	732.3	(37.8)
Judicial and Public Safety	385.5	399.4	388.7	(10.7)
Natural Resources and Environmental Control	37.5	53.5	41.0	(12.5)
Labor	6.0	6.1	6.0	(0.1)
Education	999.7	1,109.9	1,045.2	(64.7)
<b>Total Expenditures</b>	<b>2,392.2</b>	<b>2,666.6</b>	<b>2,454.2</b>	<b>(212.4)</b>
Excess (Deficiency) of Revenues Over Expenditures	(69.2)	(226.8)	(17.8)	(215.8)
<b>Budgetary Fund Balance, Beginning of Year</b>	<b>481.8</b>	<b>481.8</b>	<b>481.8</b>	<b>0.0</b>
<b>Budgetary Fund Balance, End of Year</b>	<b>\$ 412.6</b>	<b>\$ 255.0</b>	<b>\$ 464.0</b>	<b>\$ (215.8)</b>

**Budgetary Fund Balance**

Designated:		
Budget Reserve Account		\$ 136.5
Continuing and encumbered appropriations		173.3
Undesignated		154.2
<b>Total</b>		<b>\$ 464.0</b>

(See Budgetary Basis Vs. GAAP in Notes to Required Supplementary Information)

**Budgetary Comparison Schedule - Special Fund**  
**Budget to Actual (Non-GAAP Budgetary Basis)**  
**For the Fiscal Year Ended June 30, 2003**  
(Expressed in Millions)

	Budgeted Amounts		Actual Amounts	Variance with Final Budget
	Original	Final		
<b>REVENUES</b>				
Personal Income Taxes	\$ 0.0	\$ 0.0	\$ 0.7	\$ 0.7
Business Taxes	24.6	24.6	11.4	(13.2)
Other Taxes	1.9	1.9	14.3	12.4
License, Permits, Fines and Fees	46.2	46.2	75.2	29.0
Rentals and Sales	15.9	15.9	12.4	(3.5)
Interest Earnings	3.8	3.8	8.1	4.3
Grants	10.4	10.4	18.0	7.6
Other Non-Tax Revenue	<u>328.3</u>	<u>328.3</u>	<u>331.1</u>	<u>2.8</u>
Total Revenues	<u>431.1</u>	<u>431.1</u>	<u>471.2</u>	<u>40.1</u>
<b>Expenditures</b>				
General Government	225.0	278.5	177.2	(101.3)
Health and Children's Services	76.3	89.9	64.4	(25.5)
Judicial and Public Safety	29.2	35.3	22.9	(12.4)
Natural Resources and Environmental Control	41.2	50.0	27.2	(22.8)
Transportation	232.3	139.6	156.5	16.9
Labor	15.0	15.5	13.8	(1.7)
Education	<u>3.5</u>	<u>5.0</u>	<u>2.5</u>	<u>(2.5)</u>
Total Expenditures	<u>622.5</u>	<u>613.8</u>	<u>464.5</u>	<u>(149.3)</u>
Excess (Deficiency) of Revenues Over Expenditures	<u>(191.4)</u>	<u>(182.7)</u>	<u>6.7</u>	<u>189.4</u>
<b>Budgetary Fund Balance, Beginning of Year</b>	<u>303.1</u>	<u>303.1</u>	<u>303.1</u>	<u>0.0</u>
<b>Budgetary Fund Balance, End of Year</b>	<u>\$ 111.7</u>	<u>\$ 120.4</u>	<u>\$ 309.8</u>	<u>\$ 189.4</u>

**Budgetary Fund Balance**

Designated:	
Delaware Health Fund	\$ 73.4
Department of Administrative Services	17.6
Department of Finance	38.5
Department of Natural Resources and Environmental Control	159.4
Miscellaneous designated funds	20.9
<b>Total</b>	<b><u>\$ 309.8</u></b>

(See Budgetary Basis Vs. GAAP in Notes to Required Supplementary Information)

### **Statutory/Budgetary Reconciliations**

Since accounting principles applied for purposes of developing data on a budgetary basis differ significantly from those used to present financial statements in conformity with GAAP, a reconciliation is required of resulting basis, perspective and entity differences in the revenues in excess of (less than) expenditures and other financing sources (uses) between budgetary and GAAP presentations.

The following two schedules represent the accrual adjustments necessary to convert budgetary basis information to GAAP basis.

#### **BUDGET VS GAAP REVENUE RECONCILIATION (Expressed in Millions)**

Total Budget Basis Revenue for fiscal year 2003	\$ 2,907.6
<b>Non Appropriated Revenue by Category:</b>	
Personal, Business and Other Taxes	51.0
License, Fees, Permits and Fines	28.1
Federal Government	20.7
Interest and Other Investment Income	10.8
Other Revenue	93.1
Funds for Thoroughbred and Harness Racing Purses	58.5
Department of Transportation Revenue Reclass for	
Enterprise Fund Reporting	(156.0)
Reclassification of Appropriated Funds to the General Fund	(53.9)
Reversal of Prior Year's Revenue Accruals and Adjustments	(6.0)
Accrued Revenue for License, Fees, Permits and Fines	110.2
Accrued Revenue for Personal, Business and Other Taxes	56.4
Deferred Revenue - Personal Taxes, Business Taxes and Loans	
revenue recognized for GAAP reporting	(158.0)
Revenue received from Lottery sales not included in GAAP	(273.8)
Adjustment for Revenue Received for Medicaid	(28.1)
Federal Funds Received for Food Stamps	46.1
Adjustment for the Receipt of Interest Income	11.3
Transfers in from Local Schools due to budget changes	(21.8)
Other transfers and adjustments for accruals	<u>3.0</u>
	<u>(208.4)</u>
Total General Fund Revenues for the fiscal year ended June 30, 2003	2,699.2
Federal Funds Revenue	\$ 714.2
Local School Fund Revenue	<u>334.3</u>
	<u>1,048.5</u>
Total GAAP Basis Governmental Funds Revenue for fiscal year 2003	<u>\$ 3,747.7</u>

**BUDGET VS GAAP EXPENDITURE RECONCILIATION**  
**(Expressed in Millions)**

Total Budget Basis Expenditures for fiscal year 2003	\$ 2,918.7
Non Appropriated Expenditures by Department:	
General Government	\$ 680.6
Health and Children's Services	10.6
Judicial and Public Safety	12.8
Natural Resources and Environmental Control	33.6
Labor	7.2
Education	47.3
Funds for Thoroughbred and Harness Racing Purses	60.0
Delaware State University General Fund Expenditures	(62.3)
Delaware Department of Transportation Expenditures	(154.2)
Reclassification for Enterprise Fund Reporting	
Accruals and Adjustments for GAAP Reporting	<u>(616.8)</u>
	18.8
Total General Fund Expenditures for the fiscal year ended June 30, 2003	2,937.5
Federal Revenue Funds Expenditures	
Local School District Funds Expenditures	\$ 732.4
Capital Projects Funds Expenditures	<u>323.2</u>
	<u>193.9</u>
	1,249.5
Total GAAP Basis Governmental Funds Expenditures for the fiscal year ended June 30, 2003	<u>\$ 4,187.0</u>

## Required Supplementary Information

### Information About Infrastructure Assets Reported Using the Modified Approach

As allowed by GASB Statement No 34, Basic Financial Statements – and Management’s Discussion and Analysis – for State and Local Governments, the State has adopted an alternative process to recording depreciation expense on selected infrastructure assets. Under this alternative method, referred to as the modified approach, the State expenses certain maintenance and preservation costs and does not report depreciation expense. Assets accounted for under the modified approach include approximately 11,057 centerline miles and approximately 1,386 bridges that the State is responsible to maintain.

The condition of the State’s road pavement is measured using the Overall Pavement Condition (OPC) system, which is based on the extent and severity of various pavement distresses that are visually observed. The OPC system uses a measurement scale that is based on a condition index ranging from 0 for poor pavement to 5 for pavement in excellent condition.

The condition of bridges is measured using the “Bridge Condition Rating” (BCR) which is based on the Federal Highway Administration (FHWA) Coding Guide, “Recording and Coding Guide for the Structure Inventory and Appraisal of the Nation’s Bridges.” The BCR uses a measurement scale that is based on a condition index ranging from 0-9, 0-4 for substandard bridges and 9 for bridges in perfect condition. For these reporting purposes, substandard bridges are classified as those with a rating of 4 or less. The good or better condition bridges were taken as those with ratings of between 6-9. A 5 rating is considered fair. The information is taken from past “Bridge Inventory Status” reports.

It is the State’s policy to maintain at least 75 percent of its highways and bridge system at a good or better condition level. No more than 10 percent of bridges and 15 percent of roads should be in substandard condition. The Department of Transportation will perform condition assessments of eligible infrastructure assets at least every three years. Currently, road condition assessments are conducted every year and bridge condition assessments are conducted, for the most part every two years.

**State of Delaware**  
**Department of Transportation**  
**Supplementary Information for Government That Use the**  
**Modified Approach for Infrastructure Assets**

BCR Condition Rating	Structural Rating Numbers and Percentages for Bridges					
	2002		2001		2000	
	Number	Percent	Number	Percent	Number	Percent
Good 6 - 9	1,011	72.9	1,057	77.7	1,021	75.7
Fair 5	273	19.7	232	17.1	245	18.1
Poor 1 - 4	102	7.4	70	5.2	84	6.2
<b>Totals</b>	<b>1,386</b>		<b>1,359</b>		<b>1,350</b>	

OPC Condition Rating	Deck Rating Numbers and Percentages for Bridges					
	2002		2001		2000	
	Square Meters	Percent	Square Meters	Percent	Square Meters	Percent
Good 6 - 9	6,522,812	75.4	6,573,433	76.0	6,544,268	76.0
Fair 5	1,650,368	19.1	1,570,299	18.2	1,545,144	17.9
Poor 1 - 4	480,228	5.5	506,886	5.8	522,193	6.1
<b>Totals</b>	<b>8,653,408</b>		<b>8,650,618</b>		<b>8,611,605</b>	

OPC Condition Rating	Center-line Mile Numbers and Percentages for Road Pavement					
	2003		2002		2001	
	Center- line Mile	Percent	Center- line Mile	Percent	Center- line Mile	Percent
Good 3.0 - 5.0	3,196	76.6	973	80.8	2,377	68.7
Fair 2.5 - 3.0	568	13.6	136	11.3	821	23.7
Poor Below 2.5	411	9.8	95	7.9	264	7.6
<b>Totals</b>	<b>4,175</b>		<b>1,204</b>		<b>3,462</b>	

**Comparison of Estimated-to –Actual Maintenance/Preservation**  
**(Expressed In Thousands)**

	2003	2002	2001	2000	1999
Estimated	\$ 129,180	\$ 97,341	\$ 51,275	\$ 50,854	\$ 42,384
Actual	\$ 146,352	\$ 126,540	\$ 132,454	\$ 116,158	\$ 82,217

**STATE OF DELAWARE**  
**CONDENSED STATEMENT OF REVENUES, EXPENDITURES AND**  
**CHANGES IN FUND BALANCE - GENERAL FUND**  
**FOR THE YEAR ENDED JUNE 30:**  
(Expressed in Thousands)

	1994	1995	1996	1997	1998
<b>REVENUES:</b>					
Taxes (1)	\$ 1,390,748	\$ 1,508,344	\$ 1,540,565	\$ 1,566,922	\$ 1,797,295
Licenses, Fines, Permits and Fees (10)	449,746	564,706	515,359	581,344	586,908
Rentals & Sales	67,154	78,267	87,430	96,747	100,226
Federal Government	12,340	71,685	104,380	72,575	58,381
Interest and Other Investment Income	16,996	29,485	42,603	41,940	47,643
Other Revenues (10)	50,625	130,492	163,503	164,056	217,116
<b>TOTAL REVENUES</b>	<b>1,987,609</b>	<b>2,382,979</b>	<b>2,453,840</b>	<b>2,523,584</b>	<b>2,807,569</b>
<b>EXPENDITURES:</b>					
General Government (2) (10)	327,882	445,874	443,165	473,140	528,965
Health and Children's Services (3)	380,570	498,833	530,187	534,840	563,689
Judicial and Public Safety (4)	200,689	238,737	241,873	263,195	274,368
Natural Resources and Environmental Control	84,870	87,355	120,993	77,484	80,932
Labor (6)					
Transportation (8)	127,691	99,746	111,999	109,889	109,964
Education (5)	578,478	603,491	669,046	748,669	809,590
Payment to Componet Unit - General Government (10)					
Payment to Componet Unit - Education (10)					
Other (6)	20,552	24,485	39,254	64,802	67,178
Debt Service: (9)					
Principle					
Interest					
<b>TOTAL EXPENDITURES</b>	<b>1,720,732</b>	<b>1,998,521</b>	<b>2,156,517</b>	<b>2,272,019</b>	<b>2,434,686</b>
<b>EXCESS OF REVENUES OVER EXPENDITURES</b>	<b>266,877</b>	<b>384,458</b>	<b>297,323</b>	<b>251,565</b>	<b>372,883</b>
<b>OTHER SOURCES (USES) OF FINANCIAL RESOURCES</b>					
Operating Transfers In	37,209	43,250	266,009	326,474	279,333
Operating Transfers Out	(220,397)	(245,185)	(491,794)	(484,481)	(430,367)
Other Sources (Uses)	4,075	14,751	646		
<b>NET OTHER USES</b>	<b>(179,113)</b>	<b>(187,184)</b>	<b>(225,139)</b>	<b>(158,007)</b>	<b>(151,034)</b>
<b>SOURCES OVER (UNDER) EXPENDITURES AND OTHER (USES)</b>					
	87,764	197,274	72,184	93,558	221,849
<b>FUND BALANCE AT BEGINNING OF YEAR</b>	<b>221,193</b>	<b>308,957</b>	<b>506,231</b>	<b>578,415</b>	<b>671,973</b>
<b>RESIDUAL EQUITY TRANSFER OUT TO COMPONENT UNITS</b>					
<b>FUND BALANCE AT END OF YEAR</b>	<b>\$ 308,957</b>	<b>\$ 506,231</b>	<b>\$ 578,415</b>	<b>\$ 671,973</b>	<b>\$ 893,822</b>

- (1) Taxes includes Personal Income Taxes and Business Taxes
- (2) General Government summarizes the expenditures of the following General Government Departments; Legislative, Executive, Other Elective Offices, State and the Advisory Council for Exceptional Citizens.
- (3) Health and Children's Services summarizes the expenditures of the Departments of Health and Social Services and Services for Children, Youth and Their Families
- (4) Judicial and Public Safety summarizes the expenditures of the following Departments: Judicial, Legal, Corrections, Public Safety, Fire Prevention and the Delaware National Guard.
- (5) Education summarizes the expenditures of the Departments of Higher Education and Public Education.
- (6) "Other" summarizes the expenditures of the following Departments: Labor, Agriculture, Elections, Fire Prevention, the Delaware National Guard and the Advisory Council for Exceptional Citizens. Effective fiscal year 2001 the category "Other" was eliminated and departments were grouped with similar or related functions. Fiscal year 2000 expenditures were restated for comparability purposes.
- (7) Fund Balance has been restated due to the implementation of GASB Statement No. 34.
- (8) The Department of Transportation is reported as an Enterprise Fund and is no longer part of the General Fund in 2002.
- (9) Debt service activities are accounted for in the General Fund starting in fiscal year 2002.
- (10) Reclassification of expenses in 2002 due to GASB 34

	1999	2000	2001	2002	2003
<b>REVENUES:</b>					
Taxes (1)	1,864,867	\$ 1,925,457	\$ 2,023,671	\$ 2,032,305	\$ 2,093,993
Licenses, Fines, Permits and Fees (10)	641,972	733,593	728,265	227,051	241,370
Rentals & Sales	92,777	102,831	312,228	26,592	20,621
Federal Government	6,144	66,473	46,333	52,279	61,966
Interest and Other Investment Income	44,443	61,761	82,971	46,756	65,205
Other Revenues (10)	306,106	227,463	112,388	186,374	216,068
<b>TOTAL REVENUES</b>	<b>2,956,309</b>	<b>3,117,578</b>	<b>3,305,856</b>	<b>2,571,357</b>	<b>2,699,223</b>
<b>EXPENDITURES:</b>					
General Government (2) (10)	795,965	816,346	881,189	454,186	398,653
Health and Children's Services (3)	599,021	664,909	737,169	781,383	839,173
Judicial and Public Safety (4)	310,939	352,344	374,342	386,457	395,086
Natural Resources and Environmental Control	104,788	105,847	108,086	100,218	97,951
Labor (6)		15,775	18,132	27,131	25,568
Transportation (8)	117,498	132,481	144,690		
Education (5)	824,277	890,541	1,007,084	1,023,968	1,003,769
Payment to Componet Unit -					
General Government (10)				8,821	5,947
Payment to Componet Unit - Education (10)				40,571	53,633
Other (6)	88,785				
Debt Service: (9)					
Principle				79,757	84,079
Interest				34,134	33,676
<b>TOTAL EXPENDITURES</b>	<b>2,841,273</b>	<b>2,978,243</b>	<b>3,270,692</b>	<b>2,936,626</b>	<b>2,937,535</b>
<b>EXCESS OF REVENUES OVER EXPENDITURES</b>	<b>115,036</b>	<b>139,335</b>	<b>35,164</b>	<b>(365,269)</b>	<b>(238,312)</b>
<b>OTHER SOURCES (USES) OF FINANCIAL RESOURCES</b>					
Operating Transfers In	318,550	368,379	412,735	333,566	474,634
Operating Transfers Out	(447,595)	(474,086)	(597,693)	(30,020)	(31,180)
Other Sources (Uses)				(20,764)	(177,728)
<b>NET OTHER USES</b>	<b>(129,045)</b>	<b>(105,707)</b>	<b>(184,958)</b>	<b>282,782</b>	<b>265,726</b>
<b>SOURCES OVER (UNDER) EXPENDITURES AND OTHER (USES)</b>					
	(14,009)	33,628	(149,794)	(82,487)	27,414
<b>FUND BALANCE AT BEGINNING OF YEAR</b>	<b>893,822</b>	<b>879,813</b>	<b>912,355</b>	<b>(7)</b>	<b>1,004,126</b>
<b>RESIDUAL EQUITY TRANSFER OUT TO COMPONENT UNITS</b>		<b>(1,086)</b>			
<b>FUND BALANCE AT END OF YEAR</b>	<b>879,813</b>	<b>\$ 912,355</b>	<b>\$ 762,561</b>	<b>\$ 921,639</b>	<b>\$ 949,053</b>

**STATE OF DELAWARE**  
**REVENUES BY SOURCE AND EXPENDITURES BY FUNCTION**  
**ALL GOVERNMENTAL FUNDS**  
**FOR THE YEAR ENDED JUNE 30:**  
(Expressed in Thousands)

	1994	1995	1996	1997	1998
Taxes (1)	\$ 1,549,291	\$ 1,680,781	\$ 1,720,945	\$ 1,758,772	\$ 1,999,391
Licenses, Fees, Permits & Fines (9)	449,958	564,766	515,415	581,467	587,086
Rentals & Sales	78,972	91,001	101,883	112,056	115,440
Federal Government	391,306	478,070	587,288	599,263	635,114
Interest and Other Investment Income	26,858	42,369	53,207	55,563	69,508
Other Revenues (9)	73,262	160,682	217,218	187,924	244,453
<b>TOTAL REVENUES</b>	<b>\$ 2,569,647</b>	<b>\$ 3,017,669</b>	<b>\$ 3,195,956</b>	<b>\$ 3,295,045</b>	<b>\$ 3,650,992</b>
General Government (2) (9)	\$ 347,182	\$ 474,278	\$ 480,946	\$ 526,490	\$ 576,910
Health and Children's Services (3)	605,839	762,388	810,489	830,907	874,074
Judicial and Public Safety	208,597	246,323	250,834	270,105	292,775
Natural Resources and Environmental Control	108,466	111,011	147,916	106,274	104,251
Labor (6)					
Transportation (7)	218,161	243,347	304,023	317,350	336,793
Education (5)	877,128	916,880	1,006,230	1,085,730	1,157,766
Payment to Componet Unit - General Government (9)					
Payment to Componet Unit - Education (9)					
Other (6)	51,939	57,730	72,353	98,017	102,390
Capital Outlay (8)					
Debt Service - Principal (7)	104,720	84,163	88,827	92,778	102,244
Interest (7)	71,437	68,933	70,353	65,954	68,367
<b>TOTAL EXPENDITURES</b>	<b>\$ 2,593,469</b>	<b>\$ 2,965,053</b>	<b>\$ 3,231,971</b>	<b>\$ 3,393,605</b>	<b>\$ 3,615,570</b>

(1) Taxes includes Personal Income Taxes and Business Taxes

(2) General Government summarizes the expenditures of the following General Government Departments; Legislative, Executive, Other Elective Offices, State, Finance, Administrative Services, Agriculture, Elections, and the Advisory Council for Exceptional Citizens.

(3) Health and Children's Services summarizes the expenditures of the Departments of Health and Social Services and Services for Children, Youth and Their Families.

(4) Judicial and Public Safety summarizes the expenditures of the following Departments: Judicial, Legal, Corrections, Public Safety, Fire Prevention and the Delaware National Guard.

(5) Education summarizes the expenditures of the Departments of Higher Education and Public Education.

(6) "Other" summarizes the expenditures of the following Departments: Labor, Agriculture, Elections, Fire Prevention, the Delaware National Guard and the Advisory Council for Exceptional Citizens. Effective fiscal year 2001, the category "Other" was eliminated and departments were grouped with similar or related functions. Fiscal year 2000 expenditures were restated for comparability purposes.

(7) The Department of Transportation is reported as an Enterprise Fund effective fiscal year 2002.

(8) Presented by Department and function prior to fiscal year 2002

(9) Reclassification of expenses in 2002 due to GASB 34

Sources: Delaware's Comprehensive Annual Financial Report

	1999	2000	2001	2002	2003
Taxes (1)	2,077,462	\$ 2,141,475	\$ 2,257,952	\$ 2,271,259	\$ 2,352,666
Licenses, Fees, Permits & Fines (9)	642,081	733,851	728,414	228,599	241,663
Rentals & Sales	107,609	118,422	333,747	49,576	43,461
Federal Government	621,069	790,201	664,263	731,918	775,725
Interest and Other Investment Income	66,148	81,843	111,374	58,624	73,911
Other Revenues (9)	329,515	231,997	153,234	230,241	260,270
<b>TOTAL REVENUES</b>	<b>3,843,884</b>	<b>\$ 4,097,789</b>	<b>\$ 4,248,984</b>	<b>\$ 3,570,217</b>	<b>\$ 3,747,696</b>
General Government (2) (9)	857,308	\$ 865,673	\$ 938,328	\$ 466,848	\$ 413,096
Health and Children's Services (3)	933,107	1,050,181	1,175,376	1,261,128	1,372,705
Judicial and Public Safety	327,254	372,274	398,293	407,608	410,084
Natural Resources and Environmental Control	123,479	128,222	128,272	125,301	116,399
Labor (6)		45,347	49,228	60,572	59,500
Transportation (7)	380,667	429,447	293,358		
Education (5)	1,193,678	1,297,611	1,446,986	1,440,044	1,432,937
Payment to Componet Unit - General Government (9)				8,821	10,107
Payment to Componet Unit - Education (9)				40,571	64,670
Other (6)	126,077				
Capital Outlay (8)				168,418	189,713
Debt Service - Principal (7)	108,175	115,961	120,281	79,757	84,079
Interest (7)	68,895	67,881	70,012	34,134	33,676
<b>TOTAL EXPENDITURES</b>	<b>4,118,640</b>	<b>\$ 4,372,597</b>	<b>\$ 4,620,134</b>	<b>\$ 4,093,202</b>	<b>\$ 4,186,966</b>

The following tables present pertinent demographic and economic statistics. These figures demonstrate that Delaware's growth in population surpassed the growth experienced by nearby states in the Mideast region (Maryland, New Jersey, New York and Pennsylvania) and the nation as a whole over the last ten years. Per capita personal income of Delaware residents advanced 1.3% in 2002, with Delaware's per capita personal income the 14<sup>th</sup> highest in the nation.

### Population Statistics

(in Thousands)

Calendar Year	Delaware Population	Delaware Change	Mid-Atlantic Region Population	Mid-Atlantic Region Change	United States Population	United States Change
1993	706	1.6%	44,717	0.7%	259,919	1.3%
1994	718	1.7%	44,970	0.6%	263,126	1.2%
1995	730	1.7%	45,186	0.5%	266,278	1.2%
1996	741	1.5%	45,384	0.4%	269,394	1.2%
1997	751	1.3%	45,580	0.4%	272,647	1.2%
1998	763	1.6%	45,822	0.5%	275,854	1.2%
1999	775	1.6%	46,106	0.6%	279,040	1.2%
2000	787	1.5%	46,390	0.6%	282,224	1.1%
2001	797	1.3%	46,655	0.6%	285,318	1.1%
2002	807	1.3%	46,919	0.6%	288,369	1.1%

Source: U.S. Department of Commerce

### Per Capita Personal Income

Year	Delaware	Change	United States	Change	Delaware as Percent of U.S.
1993	\$ 23,590	2.9%	\$ 21,539	2.8%	110%
1994	\$ 24,218	2.7%	\$ 22,340	3.7%	108%
1995	\$ 24,992	3.2%	\$ 23,255	4.1%	107%
1996	\$ 26,140	4.6%	\$ 24,270	4.4%	108%
1997	\$ 26,807	2.6%	\$ 25,412	4.7%	105%
1998	\$ 28,662	6.9%	\$ 26,893	5.8%	107%
1999	\$ 29,312	2.3%	\$ 27,880	3.7%	105%
2000	\$ 31,092	6.1%	\$ 29,760	6.7%	104%
2001	\$ 32,166	3.5%	\$ 30,413	2.2%	106%
2002	\$ 32,307	0.4%	\$ 30,832	1.4%	105%

Source: U.S. Department of Commerce

In 2003, Delaware, along with all other U.S. states and territories, implemented a new way of gathering and reporting economic data. The Standard Industrial Classification (SIC) System, which had been in place since the 1930's, has been replaced by the North American Industry Classification System (NAICS). NAICS is considered an

improvement over SIC because NAICS was designed with modern economy in mind. NAICS differs from SIC in that it more fully recognizes the rise in economy's service and information bases. Additionally, whereas under SIC all employees working in a particular firm were classified under a single code, NAICS makes distinctions within each firm. For example, within the same firm, production workers are classified under "manufacturing" but the CEO would be recognized separately as "headquarters" staff. Clearly, the change in the classification systems means that any comparisons of current NAICS based data with SIC based data are likely to produce unreliable results. Delaware, along with the U.S. Bureau of Labor Statistics, has undertaken the difficult task of reconstructing and restating industry data since 1990 in NAICS format. Accordingly, readers should be aware that such data is not based upon actual historical series and reliance thereon should be limited.

The following table presents trends in employment in the State by major categories for the last five years.

### Composition of Delaware Labor Force

For the Calendar Year Ended December 31

(Expressed in Thousands)

	1998	1999	2000	2001	2002
<b>Civilian Labor Force Data</b>					
Employed (1)	377.4	376.0	399.9	414.4	405.3
Unemployed	14.9	13.7	16.4	14.8	17.9
Total	<u>392.3</u>	<u>389.7</u>	<u>416.3</u>	<u>429.2</u>	<u>423.2</u>
<b>NAICS Data</b>					
Construction and Mining	22.7	24.7	24.6	24.5	24.2
Manufacturing	44.0	44.0	41.5	39.4	36.8
Wholesale	12.3	12.4	13.2	13.4	13.5
Retail Trade	48.3	50.9	51.4	50.6	51.0
Transportation, Warehousing and Utilities	14.0	14.6	14.2	12.8	12.3
Information	7.3	7.8	8.1	8.1	7.8
Financial Activities	38.0	39.1	39.0	39.6	38.5
Professional and Business Services	67.1	69.2	73.5	73.1	68.6
Education and Health Services	42.8	43.9	45.5	47.4	48.9
Leisure and Hospitality	33.7	34.7	35.8	36.4	37.7
Other Services	15.3	15.9	15.9	17.3	17.8
Government	<u>54.3</u>	<u>55.1</u>	<u>56.6</u>	<u>56.9</u>	<u>56.1</u>
Non-Agricultural Employment Total (2)	<u>399.8</u>	<u>412.3</u>	<u>419.3</u>	<u>419.5</u>	<u>413.2</u>

(1) This indicator reflects the number of Delaware residents 16 years of age or older, who worked at least one hour for pay or profit, and includes employment in agriculture, proprietors, self-employed, unpaid family workers and domestic workers.

(2) Based on reconstructed and restated data complying with the North American Industry Classification System (NAICS) (see discussion below). This indicator includes persons on Delaware non-agricultural establishment payrolls, regardless of their place of residence, and does not include proprietors, self-employed, unpaid workers, domestic workers and military personnel.

Source: Delaware Department of Labor

The following table depicts non-agricultural employment growth for Delaware, the Mideast region and the U.S. for 1998-2002.

### Non-Agricultural Employment Growth Rates

	1998	1999	2000	2001	2002
Delaware	3.2%	3.2%	1.7%	(0.1%)	(1.5%)
Mideast Region	2.0%	2.4%	2.2%	(0.2%)	(0.9%)
United States	2.6%	2.4%	2.2%	0.0%	(1.1%)

The following chart shows Delaware's employment base has enjoyed vigorous growth in historically smaller sectors within the State. Once heavily reliant on the manufacturing base, Delaware has experienced gains in several of the service industries and now stands below the national average for dependence on manufacturing. The diversification of the State's economic base will help Delaware to continue to weather the economic downturns and strengthen the State's economic position in future years.

### Percentage Distribution of Employment



Sources: U.S. Department of Labor and Delaware Department of Labor

As of December 31, 2002, Delaware's unemployment rate was among the fourth lowest in the U.S. Delaware's unemployment rate as of June 2003 was 3.8%, significantly lower than the regional rate of 5.2% and the national rate of 6.4%. The following table presents the average annual unemployment rates for Delaware, the Mideast region and the United States for the last ten years.

### Unemployment Rates

Year	Delaware	Mideast Region	United States
1994	4.9	6.3	6.1
1995	4.3	5.9	5.6
1996	5.2 (1)	5.7	5.4
1997	4.0	5.2	4.9
1998	3.8	4.6	4.5
1999	3.5	4.2	4.2
2000	4.0	4.0	4.0
2001	3.2	4.2	4.6
2002	4.3	5.2	5.8
2003	3.8	5.2	6.4

(1) Reflects the temporary closing of two automobile production plants

Sources: U.S. Department of Labor and Delaware Department of Labor

The table below lists the fifteen largest commercial and industrial employers in the State as of March 31, 2003.

### Delaware's Largest Private Employers

Name	Nature	Number of Employees
MBNA America	Commercial banking	11,400
E.I. duPont de Nemours & Co., Inc.	Chemicals and energy; corporate headquarters	9,800
Christian Care Health Services	Hospital complex and home healthcare subsidiary	7,200
AstraZeneca, Inc.	Pharmaceuticals and specialty chemicals; corporate headquarters	4,200
Mountaire Farms of Delmarva, Inc.	Food processor	3,300
J.P. Morgan Chase & Co.	Commercial banking	3,000
Wal-Mart Inc.	Retail chain	2,700
Alfred I. duPont Institute	Children's health care facility	2,600
Bank One	Commercial banking	2,500
Perdue Farms, Inc.	Boilers, feed and grains	2,400
DaimlerChrysler	Automotive assembly	2,200
Wilmington Trust Company	Commercial banking	2,200
Bayhealth Medical Center	Hospital complex	2,200
General Motors	Automotive assembly	2,100
Happy Harry's Inc.	Retail chain	2,000

Each county within the State determines the assessed values of real estate for taxation purposes. The following table depicts the assessed and full valuation of all taxable real property of the State as well as a comparison of the total value of residential, commercial and non-building construction contracts and the total bank deposits for the years 1993 through 2002. The next table depicts public and higher education school enrollments for the last ten years.

### **Property Valuation, Construction and Bank Deposits** (in Millions)

Calendar Year	Assessed Valuation (1)	Full Valuation	Value of Construction Contracts (2)	Bank Deposits (3)
1993	\$ 17,116	\$ 28,812	\$ 709	\$ 36,070
1994	\$ 17,518	\$ 39,826	\$ 705	\$ 36,320
1995	\$ 17,894	\$ 39,319	\$ 863	\$ 40,746
1996	\$ 18,212	\$ 41,793	\$ 800	\$ 42,720
1997	\$ 18,663	\$ 43,264	\$ 934	\$ 62,149
1998	\$ 19,132	\$ 45,961	\$ 892	\$ 63,837
1999	\$ 19,519	\$ 47,431	\$ 1,036	\$ 73,226
2000	\$ 19,940	\$ 51,998	\$ 982	\$ 88,733
2001	\$ 20,303	\$ 55,367	\$ 934	\$ 94,413
2002	\$ 20,750	\$ 59,595	\$ 824	\$ 102,456

(1) The assessed and full valuation of all taxable real property as of June 30 of each year.

(2) The total value of construction contracts awarded as of December 31 of each year.

(3) The total value of bank deposits as of December 31 of each year.

Sources: Delaware Department of Education  
Delaware State Banking Commission  
F.W. Dodge Division, McGraw-Hill

### **School Enrollment**

School Year	Public School Enrollment (1)	Public and Private Higher Education Enrollment	Total
1993	103,074	42,760	145,834
1994	104,284	43,192	147,476
1995	105,619	42,940	148,559
1996	107,348	44,537	151,885
1997	109,538	45,241	154,779
1998	112,160	46,155	158,315
1999	113,595	46,476	160,071
2000	113,699	45,563	159,262
2001	114,693	47,031	161,724
2002	115,545	48,842	164,387

(1) Excludes children of military personnel living on Dover Air Force Base who attend Base schools and whose education is federally funded.

Sources: Delaware Department of Education  
Delaware Higher Education Commission

## Debt Limits

There is no Constitutional debt limit of the State.

In 1991, the General Assembly passed legislation to replace the prior statutory debt limits with a three-part debt limit, as follows:

First, the aggregate principle amount of new “tax-supported obligations of the State” (hereinafter defined) which may be authorized in any one fiscal year (excluding refunding bonds) may not exceed 5% of estimated net budgetary General Fund revenue for that fiscal year. This is determined by a joint resolution approved by a majority of the members elected to each house of the General Assembly and signed by the Governor in connection with the adoption of the annual Budget Appropriation Bill for that fiscal year (the 5% Rule). The June 2003 budgetary General Fund revenue estimate for fiscal year 2004 was \$2,514.0 million, thus a total of \$125.7 million of new general obligation debt was permissible under the 5% Rule. For fiscal year 2004, \$125.8 million was authorized (including \$180,000 from deauthorized amounts). The authorization for the issuance of the bonds consists of authorizations from fiscal 2004 as well as prior years.

The level of new tax-supported debt authorization permitted under the 5% Rule is set out in the following table. The figures assume the September 2003 budgetary General Fund revenue projections of the Delaware Economic and Financial Advisory Council (DEFAC) for fiscal 2005. From the DEFAC’s fiscal 2005 estimate, the figures assume 3.6% annual revenue growth for fiscal 2006, 4.3% annual growth for fiscal 2007, and 4.1% annual growth for 2008 and 2009, respectively.

**The 5% Rule**  
(in Millions)

	<u>Fiscal 2004</u>	<u>Fiscal 2005</u>	<u>Fiscal 2006</u>	<u>Fiscal 2007</u>	<u>Fiscal 2008</u>
Estimated Net Budgetary General Fund Revenue .....	\$ 2,698.2	\$ 2,794.4	\$ 2,915.4	\$ 3,034.1	\$ 3,158.5
Projected New Tax-Supported Debt Authorizations .....	\$ 134.9	\$ 139.7	\$ 145.8	\$ 151.7	\$ 158.0

Second, no “tax-supported obligations of the State” and no “Transportation Trust Fund (“Trust Fund” or “TTF”) debt obligations” (hereinafter defined) of the Delaware Transportation Authority may be incurred if the aggregate maximum annual payments on all such outstanding obligations exceed 15% of the estimated budgetary General Fund revenue plus Transportation Trust Fund revenue for the fiscal year following the fiscal year in which such obligation is incurred (the “15% Test”). As of Fiscal 2004, this ratio stands at 8.1%.

Third, no general obligation debt (with certain exclusions) may be incurred if the maximum annual debt service payable in any fiscal year on all such outstanding obligations will exceed the estimated cumulative cash balances (including all reserves)

for the fiscal year following the fiscal year in which such obligation is incurred (the "Cash Balances Test") as estimated by the Secretary of Finance. As of Fiscal 2004, the debt service payable represents 29.5% of the estimated cumulative cash balance.

"Tax-supported obligations of the State" include: a) all obligations of the State or any agency or authority thereof to which the State's full faith and credit is pledged and; b) all obligations of the State or any agency or authority thereof extending beyond one year with respect to the lease, occupancy or acquisition of property which are incurred in connection with debt financing transactions, and which are payable from taxes, fees, permits, licenses and fines imposed or approved by the General Assembly. Tax-supported obligations do not include: a) obligations incurred to acquire a like principal amount of full faith and credit obligations issued by a local school district to the extent local school district obligations are not in default; b) any obligation notes of the Delaware Transportation Authority; c) any tax or other revenue anticipation notes or bonds of the State; d) obligations to the extent that the debt service is reasonably expected to be offset (as determined by the Secretary of Finance) by lease payments, user fees, federal grants or other payments from a non-budgetary General Fund source.

"Transportation Trust Fund debt obligations" includes all debt obligations of the Delaware Transportation Authority, including all obligations extending beyond one year with respect to the lease, occupancy or acquisition of property which are incurred in connection with debt financing transactions (for example, certificates of participation), and which in any case are payable from the Trust Fund. Trust Fund debt obligations do not include any obligations to the extent that the debt service with respect thereto is reasonably expected to be offset (as determined by the Secretary of Finance) by lease payments, user fees, federal grants or other payments from a non-State source.

## **General Obligation Debt**

The following tables reflects the outstanding general obligation debt of the State as of June 30, 2003, of which a portion is supported by budgetary General Fund revenue and a portion of which is supported by budgetary Special Funds.

### **Outstanding General Obligation Debt**

(in Millions)

#### General Obligation Debt Supported by Budgetary General Fund Revenue

State Facilities	\$ 482.1
School Facilities ( State Share)	124.2
Miscellaneous	4.2
Subtotal	\$ 610.5

#### General Obligation Debt Supported by Budgetary Special Funds

Highway and Other Transportation	
Improvements	\$ 3.3
School Facilities (Local Share)	240.2
Housing Authority Loans	0.3
Subtotal	\$ 243.8
Total General Obligation Debt Outstanding	\$ 854.3

## Debt Burden Comparison

The State's general obligation debt is \$854.3 million as of June 30, 2003. Approximately 81% of the debt is scheduled to mature within ten years and approximately 94% is scheduled to mature within fifteen years. Total general obligation debt per capita is \$1,044 as of June 30, 2003.

The following table outlines the State's outstanding general obligation debt balance and bond ratings and demonstrates the changes in the State's general obligation debt burden since fiscal year 1994.

### Ratio of Annual General Obligation Debt Service to Total Revenues and Expenditures All Governmental Funds

(in Thousands)

Fiscal Year	Total Debt Service	Total Revenues	Ratio of Debt Service to Total Revenues	Total Expenditures	Ratio of Debt Service to Total Expenditures
1994	\$ 93,300	\$ 2,569,647	3.6 %	\$ 2,593,449	3.6 %
1995	94,217	3,017,669	3.1	2,965,053	3.2
1996	92,564	3,195,956	2.9	3,231,971	2.9
1997	92,374	3,295,045	2.8	3,393,605	2.7
1998	103,876	3,650,992	2.8	3,615,570	2.9
1999	109,990	3,843,884	2.9	4,118,640	2.7
2000	116,935	4,097,789	2.9	4,372,597	2.7
2001	120,443	4,248,984	2.8	4,620,134	2.6
2002	113,664	3,570,217	3.2	4,093,202	2.8
2003	117,755	3,747,696	3.1	4,186,966	2.8

Sources: Delaware's Comprehensive Annual Financial Report

### Ratio of General Obligation Bonded Debt Per Capita and Debt as a Percentage of Personal Income

(in Thousands)

Fiscal Year	Population	Total Principal Outstanding	Bonded Debt per Capita	Debt as % of Personal Income	Bond Ratings		
					Moody's	Standard & Poor's	Fitch Ratings
1994	718	577,690	805	3.3%	Aa	AA+	
1995	730	561,685	769	3.1%	Aa1	AA+	
1996	741	572,956	773	3.0%	Aa1	AA+	
1997	751	654,676	872	3.3%	Aa1	AA+	
1998	763	686,116	899	3.1%	Aa1	AA+	
1999	775	720,171	929	3.2%	Aa1	AA+	
2000	787	738,176	938	3.0%	Aaa	AAA	AAA
2001	797	653,701	820	2.5%	Aaa	AAA	AAA
2002	807	709,958	880	2.7%	Aaa	AAA	AAA
2003	818 (1)	854,262	1,044	3.2%	Aaa	AAA	AAA

(1) Estimated - Assumes 1.3% growth.

Sources: U.S. Census Bureau and Delaware Department of Finance

## Revenue Bond Coverage

Oversight responsibility for the issuance of debt by the State and its authorities is centralized under the Secretary of Finance. The following table sets forth certain indebtedness of the Delaware Transportation Authority. Data for the State's Component Units – Delaware Housing Authority and Delaware State University is also outlined in the following tables. The State is not directly or contingently liable for any indebtedness of the Delaware State Housing Authority or the Delaware State University. Further information for these authorities may be found in the Notes to the Financial Statements, Revenue Bonds and Notes Payable.

### Delaware Transportation Authority

(in thousands)

Fiscal Year	Gross Revenue	Direct Operating Expenses	Net Available for Debt Service	Debt Service Requirements	Coverage
1994	\$ 199,200	\$ 79,500	\$ 119,700	\$ 64,200	1.86
1995	227,800	86,600	141,200	67,100	2.10
1996	229,771	95,859	133,912	67,704	1.98
1997	233,913	105,371	128,542	67,064	1.92
1998	254,887	119,428	135,459	61,761	2.19
1999	272,398	119,816	152,582	66,018	2.31
2000	284,167	118,739	165,432	66,139	2.50
2001	299,962	147,065	152,897	72,852	2.10
2002	297,894	140,940	156,954	74,834	2.10
2003	298,536	156,394	142,142	86,447	1.64

Source: Delaware Department of Transportation

### Delaware State Housing Authority

(in Thousands)

Fiscal Year	Gross Revenue (1)	Direct Operating Expenses	Net Available for Debt Service	Debt Service Requirements	Coverage
1994	\$ 174,179	\$ 1,444	\$ 172,735	\$ 120,227	1.44
1995	71,410	3,474	67,936	55,868	1.22
1996	85,703	2,985	82,718	78,317	1.06
1997	76,155	2,831	73,324	75,881	0.97 (2)
1998	77,098	3,102	73,996	61,805	1.20
1999	80,079	1,825	78,254	77,961	1.00
2000	128,207	56,582	71,625	69,104	1.04
2001	106,381	34,772	71,609	67,091	1.07
2002	179,672	40,731	138,941	130,908	1.06
2003	143,526	43,370	100,156	88,786	1.13

(1) Gross revenue represents total operating revenues, interest income on investments, mortgage principle repayments and bond proceeds.

(2) Shortages are the result of timing differences between revenue receipts and actual date of debt service payments.

Source: Delaware State Housing Authority

**Delaware State University**

(in Thousands)

Fiscal Year	Gross Revenue (1)	Direct Operating Expenses (2)	Net Available for Debt Service	Debt Service Requirements	Coverage
1994	\$ 16,587	\$ 15,734	\$ 1,853	\$ 841	2.20
1995	20,138	16,905	3,233	1,087	2.97
1996	21,043	18,756	2,287	1,381	1.66
1997	21,688	18,226	3,462	1,678	2.06
1998	23,702	19,770	3,932	1,665	2.36
1999	26,262	20,203	6,059	1,429	4.24
2000	29,899	14,757	15,142	864	17.53
2001	28,858	14,689	14,269	1,546	9.23
2002	32,170	15,447	16,723	1,614	10.36
2003	34,504	20,992	13,512	1,612	8.38

(1) Gross revenues represents total revenues less State appropriations.

(2) Direct Operating Expenses represent total unrestricted educational and general expenditures less State appropriations.

Source: Delaware State University